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¹ At the time of the emergence of this thesis management partner at „Kohl&Partner Tourismusberatung“

Preface

Tourism in Austria has, despite its economic significance for the country, not a highly developed tradition as a topic of research. Compared to countries like, for instance, the United States, educational institutions that foster the scientific examination of the topic are also fairly rare in Austria. Nonetheless, there are some institutions, which established the scientific discussion about tourism as their field of business, namely the tourism- and hospitality consultancies. Without their contributions to literature and research, a thorough examination of the field would not be possible. Also, this thesis would not have been written without the assistance of a consultant in the field of tourism.

If the scientific examination of tourism is already rare, discussions of financial matters in tourism are even rarer. My personal interest in tourism arose during my bachelor studies, which I finished with a thesis focusing on marketing aspects of touristic ventures. Moreover, whilst my subsequent master studies with focus on corporate finance I got interested in the financial perspective of those ventures. After reading several studies dealing with the role of business plans for the decision-making of venture capitalists, the research question for this thesis evolved.

To conclude, I want to say, that in my perception, tourism is one of the most grasping fields in applied economics and would deserve far more recognition, especially in a country like Austria.

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List of Abbreviations

ADR	Average Daily Rate
APV	Adjusted Present Value
CAPM	Capital Asset Pricing Model
D	Debt
DCF	Discounted Cash Flow
DOF	Double Occupancy Factor
E	Equity
EMEA	Europe, Middle-East, Asia
FCF	Free Cash Flow
g	growth
GFC	Global Financial Crisis
HNWI	High Net-Worth Individual
IRR	Internal Rate of Return
ISS	Investors' Sentiment Survey
LBO	Leverage Buy Out
LPI	Lodging Property Index
MBO	Management Buyout
MM₁	Modigliani Miller Proposition 1
MM₂	Modigliani Miller Proposition 1
NCREIF	National Council of Real Estate Investment Fiduciaries
NOI	Net Operating Income
NWC	Net Working Capital
P	Stock Price
PV	Present Value
r_A	Costs of Assets
r_D	Costs of Debt
r_E	Costs of Equity
REIT	Real Estate Investment Trust

RevPar	Revenue Per available room
rf	risk-free rate
SME	Small- and Mediumsized Enterprise
T_c	Corporate Tax
V	Firm Value
VC	Venture Capital
WACC	Weighted Average Cost of Capital
β_A	Asset β
β_D	Debt β
β_E	Equity β

1 Introduction

As many others, the hotel- and travel industry has numerous particularities that are inherent to the sector. One very unique characteristic, for instance, is the multitude of encounters with other parts of the economic system, any touristic venture, howsoever small will in any event have. So, in this connection, tourism experts tend to describe their field of interest as a *cross-sectional subject matter*: A matter that affects all realms of society and is likewise affected by them.

Nonetheless, touristic ventures are facing the same questions like most business ventures, especially the one of how to attract outside capital. To fulfil this task, a certain amount of information has to be provided to potential investors. Whereas start-ups use business plans for this matter, touristic ventures make use of so-called feasibility studies, which, because of the capital intensity of such ventures, can be determined even before the need for a business plan arises. This thesis will address to the question what type of information of these feasibility studies delivering which kind of message is crucial for what type of decision maker and why.

To set the ground for answering this, the hotel- and travel-industry as the subordinate economic sector will be outlined, regarding its historical development, its macroeconomic significance as well as the scientific attention towards it. In a similar manner, the hotel investment-market as the sector in question will be portrayed, yet focusing on the main actors in the market. Since those actors can be seen as the object of research, the second part will above all address their characteristics and their respective investment approach. To get a closer look at the hotel as the investment itself too, a concise outline of corporate specifics, like accounting and contract design, will also be provided. Understanding those corporate specifics is incremental for the comprehension of a feasibility study, whose basic structure is then depicted.

Knowing what kind of information is available to the investors, the empirical part concentrates on the question of how they derive their decision, based on the information and again, which part of information is crucial to whom.

The sample of the study was chosen in a way to reflect the entire variety of different investor types active in the market. In spring 2012, interviews with six investors, by twos representing a distinctive group of investors, were held. The analysis of those interviews will constitute the thesis.

1.1 The Hotel- and Travel-Industry

This first section will give a brief introduction in those aforementioned particularities as well as sketch the historic development of the hotel- and travel industry. Therefore, the focus will be on the two most influential touristic markets, namely the USA and Europe. After a discussion of the initial emergence of the industry, its chronological examination will culminate in the global financial crisis and its impacts on global tourism.

Remarks about the scientific attention given to the matter will complete this first chapter.

1.2 Industry Specifics

When discussing tourism in an economic or scientific way, you always talk about the so-called tourism and leisure industry. Besides, the term tourism covers everything that can be subsumed under hospitality (lodging, restaurants, tour operators, tourist associations etc.). Then, leisure would be anything else that includes facilities, which may be part of the touristic offerings of a region, but are also used by residents (Theme parks, zoos, ski runs etc.).

Bearing this in mind, one can see that the industry is very closely linked to the public sector respectively of high public interest.

Especially in regions that depend very much on tourism, the touristic success is a key factor for the macroeconomic situation of the region. It can secure employment and be a driving factor for innovation. Furthermore, it can help funding environmental protection measures, streamlining the infrastructure and facilitating the transfer of knowledge. Then again it can make the costs of living for the residents higher, boost the pollution etc. as well (Bieger, 2008).

In turn, a successful tourism depends on a lot of external factors that cannot really be controlled, but are worth a much closer look, which will happen in chapter 1.2 External Economic Factors.

Whatever the circumstances are, the interdependency of tourism and the commonwealth is indisputable.

1.2.1 Historic Development

1.2.1.1 USA

In the United States, the first big hotel companies arose in the course of the great depression. The economic chaos of this era created opportunities for industry consolidations that attracted financiers, such as Conrad Hilton, founder of the eponymous, globally known hotel-chain. He acquired his first hotel in Cisco, Texas in 1919. At the same time, another global player was born. Between 1920 and 1930, Ernst Henderson, founder of Sheraton, bought his first four hotels. Two years before the black Friday, a third one joined the party. J. Willard Marriott Sr. laid the foundation for his posterior imperium with the opening of a root beer stand in 1927 (Barrows/Powers, 2008).

After this initial boom period, the industry followed a very volatile path, always very closely linked to the global economic trend.¹ Then, during the oil-shocks, hotel business went down, while it prospered in the time of the expansion of the interstate section. Over the course of this development, a segmentation into different hotel types commenced. The first Motels, all-suite hotels and extended-stay hotels developed.

Another effect of this, nearly 50 years lasting expansion was a mounting concentration of ownership, which peaked in the beginning of the 1990s. In fact, this amplified, when Real Estate Investment Trusts (REITs)² for the first time offered a particular investment vehicle that solely offered real estate investments (Hess/Liang/McAllister, 2001).

Despite all this, American tourism took a huge hit by something nobody expected. Almost 100 year after the birth of the industry, the events of 9/11 were an external factor that had a huge effect on tourism. Although arrival figures in the USA did not shrink by more than 1%, it was the first time in a very long time that there was no growth, proportional to the previous year (Bonham/Edmond/Mak, 2006).

The first decade of the new century was the era of private equity investors that began investing in huge international Hotel Companies all over the world. Yield expectations started growing and suddenly most of the non-institutional investors were out of the picture. This development culminated in the acquisition of Hilton through Blackstone, the largest deal ever seen in the whole industry. The private equity company made itself the biggest hotel company in the world, adding the Hilton group to its already large portfolio of hotel chains for the price of \$ 26 billion (Carrey/Morris, 2010).

¹ This very unique characteristic of the industry will be discussed thoroughly over the course of time.

² see chapter 2.2.3 *REITS*

1.2.1.2 Europe

Europe's tradition in commercial hospitality started much earlier. It all began in the 16th and 17th century, with the *Inns* in England and *Gasthöfe* in Germany. In the late 19th century, when the middle class began to travel, enormous buildings, so-called *Grand Hotels* emerged in the Alps, the European capitals and the Mediterranean. After that, World War II slowed down this development and in its aftermath, most of the touristic matter was destroyed (Dietsch, 2006). The post-world war boom again created a completely new phenomenon: mass tourism. By then, hotels mostly were held privately, but big tour operators already started to buy premises in large numbers (Club Med, Tui etc.) (Hachtmann, 2007).

During the 1990s, at the time they already played a role in the USA, big international investors began to look for investment opportunities in the European hotel industry. Regardless of that, the European hotel industry and especially the one in Germany and Austria are still dominated by small- and medium-sized companies (Peters, 2007). However, this fact and above all the prevailing capital structure of those companies made them an attractive target for foreign investors. Because European hotel companies always had a constant need for outside capital, big Anglo-American private equity investors spotted an opportunity to, on one hand provide those companies with the much-needed capital and on the other hand conduct a promising investment. As depicted in figure 1, in the years before the crisis, private equity investors already had gained a large share in the European hotel business (Frehse, 2007).

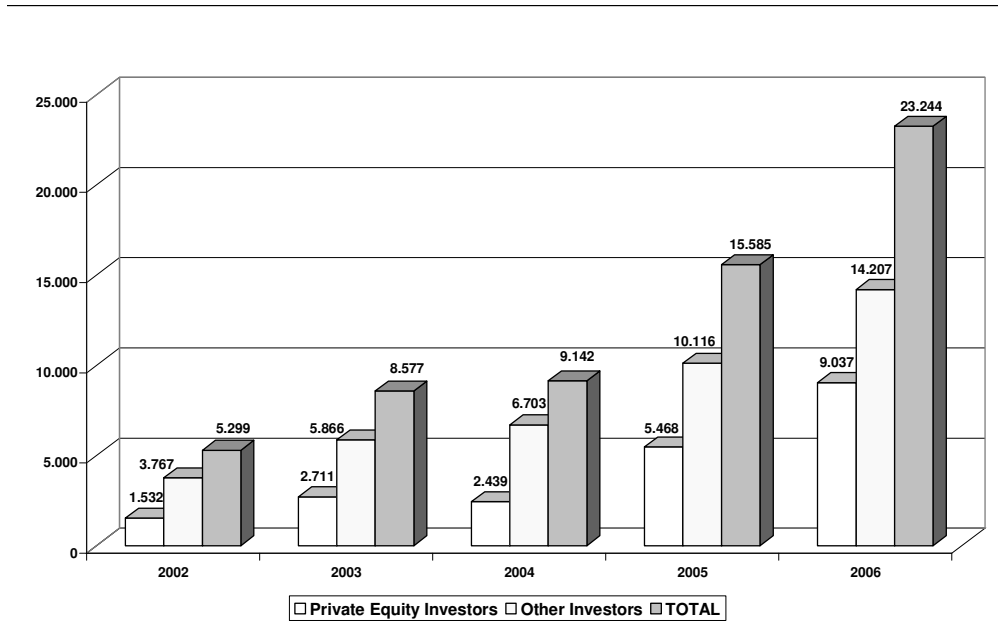


Figure 1: Hotel investment in Europe 2002-2006 (Source: Jones Lang LaSalle Hotels 2007 in Frehse 2007, p. 222)

As we can see, the hotels business always has been playground of many. Despite its short history, in comparison to other business fields, it has already undergone a lot of change, especially in the first decade of the new century.

1.2.2 Impacts of the global financial crisis

The global financial crisis (GFC), which had its offspring in the year 2008, shook the very foundations of the business world. The Travel Industry took a huge hit during this period as well. Two major fields of the sector were struck. On one hand, the amount of international arrivals hit rock bottom in 2009³ (see fig. 2).

³ International Arrivals 2009 in comparison to 2008 (Smeral, 2008)

- Asia -Pacific -6%
- The Americas -5%
- Europe -10%
- Middle East -18%
- Africa +3%

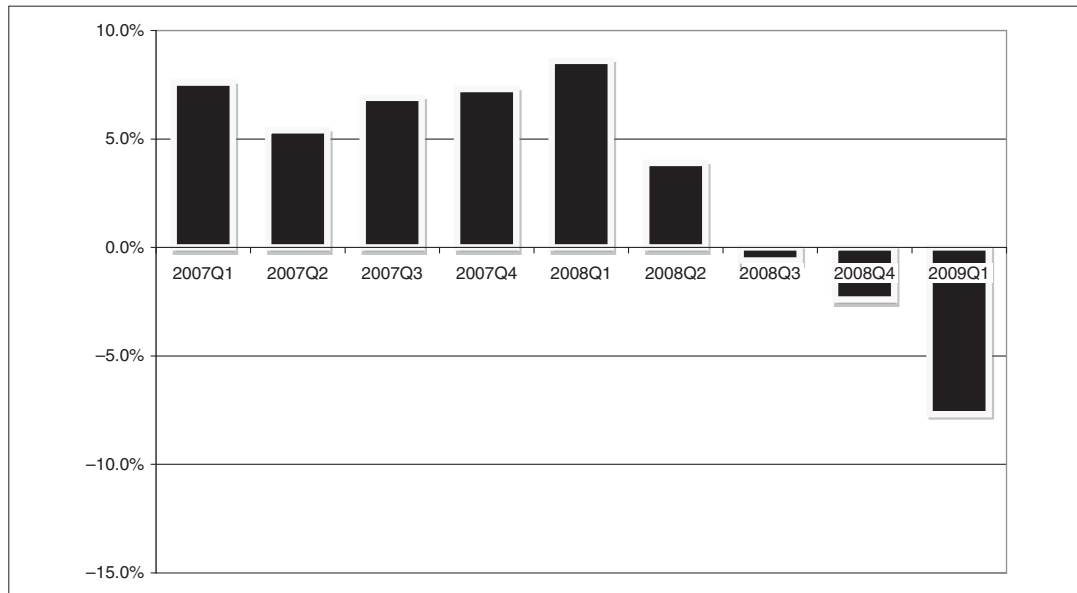


Figure 2: World international tourist arrivals (Source: Papatheodorou 2009, p.41)

This, of course, affected the hotel business in a very crucial way. As depicted in figure 3, hotels, especially in Europe, recorded an unprecedented drop in sales.

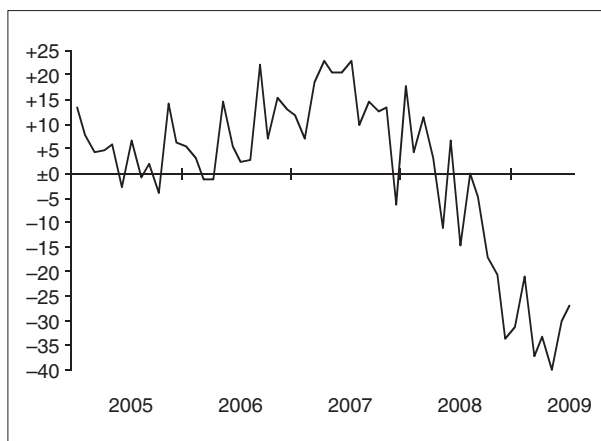


Figure 3: Turnover in the hotel and restaurant sector in the EU-27 (Source: Smeral 2009, p.49)

On the other hand, the consequential credit crunch virtually paralyzed the hotel investment market. This specific ramification will be thoroughly discussed in Chapter 2.1.2, *Impacts of the GFC*. Despite all that, there are voices that see those impacts of the GFC in a totally different way. Ritchie/Molinar/Frechting (2010),

for example, argue that impacts of other events, such as 9/11, the H1N1 Virus and natural disasters, were a lot more severe than those of the GFC.

What is indisputable is that the behaviour of tourists changed during the years of recession. First and foremost, damage in domestic tourism was not as severe as in the international one. Smeral (2010) explains this phenomenon with the accessibility of domestic destinations by car and the reduced surprise factor when making holidays in the own country. Other mutations he recorded were that in general tourists economized the duration of their vacation, cut back on secondary holidays and relied much more on Last-Minute-Deals.

One of the most obvious ramifications was the heaviness of the drop of business tourism in comparison to leisure tourism. When a company is condemned to cut costs, one of the first things to bite the dust are business trips.⁴

However, there are many, who object, that there also may be some opportunities presented by the GFC. Sheldon (2010) perceives a big chance for tourism operators and destination managers to revalue their competitive advantage in the long run and make internal structural realignment to enable renewal.

The behaviour of the touristic industry during and after the crisis was neither better, nor worse than those of other branches. If there are any lessons learned will be seen in the future, some impacts of the most recent crisis will though be noticed for quite a time from now on.

1.3 External Economic Factors

What we learned so far is that the tourism industry is very sensitive to changes in the global economy. There is a lot of evidence throughout literature, describing the tourism industry as highly correlated to both expected and unexpected

⁴ Also remarkable is the decline in the 4-5 Star sector. This can also be explained by trimmed expense accounts of managers.

inflation (Gyourko/Linneman, 1988). Barrows and Powers (2008) describe a standard cycle within a regional market in the following way:

Because of some non-industry-immanent circumstances, a certain region or city experiences a boom. This boom may happen due to an influx of a few big companies, or an enhanced accessibility of the city. Consequently, a demand for guest rooms arises. So the first big hotel company will already be on the doormat. In the course of their planning, other companies will access the new market as well. Of course, without the other one knowing. At the time the companies are aware of the fact, that they maybe not alone at this location, it is often too late to cancel the operation because of sunk costs.⁵ At a certain point in time, the demand is met, but now, somehow all the big players want to be represented and not quit the field. So they try to create a demand not through new quantity but through new categories. Nonetheless, the number of potential customers hasn't changed. Subsequently, many regions are now faced with a massive overbuilding.

This neatly describes how people tend to overstretch economic cycles. One should assume that the result of this behaviour, massive overbuilding in a particular market, will stop the big players. But as we, for example, saw in the late 1980s, it did not. Even when faced with large operating losses, hotel companies kept expanding in markets that were already saturated. A possible explanation for this phenomenon would be that they clung to the hope that even though the operating business did no longer create any revenues, the appreciation of the underlying realty will secure their investment. What's more, concerning the circumstances obtaining at this time, this conclusion maybe was not even that off. However, over the course of time, (and as we will see in further consequence) this paradigm changed completely.

Bearing the internal dynamics in mind, the tourism industry is not to blame for all downswings in its history. Obviously factors apart from the global economy also had a strong impact on the prosperity of the tourism industry. Furthermore, we already discussed the effects of 9/11. Needless to say, other unexpected events,

⁵ The problem of sunk costs in the planning stage will be discussed in chapter 3.3.2 *Risk Management*

like SARS, H1N1, Hurricane Katrina or the Asian Tsunami affected the sector too. In addition to that, long time developments also shifted the global demand for touristic products. Demographic change, a mounting demand for products especially designed for certain groups (homosexuals, pensioners, teens etc.) and changes in the income distribution all account for challenges, managers in the tourism industry will have to deal with.

1.4 Scientific Attention

As already mentioned, a neat expression for the tourism industry is *cross-sectional subject matter*: A matter that affects all realms of society and is likewise affected by them. So the scientific approach for discussing the matter thus is a multidisciplinary as well as an interdisciplinary one. Issues range from organizational management, human resource management, financial management and strategic management to issues, like, for instance, operations management, marketing, service-quality and information technologies. All of those fields are examined in respect of their peculiarities within hospitality management in various research institutions all over the world.

Discussing touristic problems in a scientific way has developed quite differently in the world. For a long time now, the Anglo-American scientific community is concerned with tourism. Hospitality majors are part of the academic offering of all important universities in the USA and, driven by interests of companies, also research in the field has prospered since the late 1980s (Guilding/Lamminmaki, 2007).

In Europe, on the other hand, for a long time, tourism management was more or less an apprentice training, taught at vocational schools. Austria was one of the first countries to identify a need for a more scientific approach to tourism.

Discussions about the right approach to hospitality research are present in the scientific community since the existence of the field. Whether a multidisciplinary

nary approach or a holistic approach might be more suitable will not be clarified within the next decades and, therefore, is not crucial to this paper, since its focus is on a particular part of the industry, the hotel real estate investment market.

Nonetheless, within this side issue there are also a lot of quite different opinions on how to conduct studies and carry out research. Though we do also not want to take part in the discussion of how hotel real estate as a scientific discipline should be classified, it might be important to look at the areas it actually touches.

For a long time, hotels were treated as a real estate asset class like many others and were examined within this category. This, of course, fell short, because, as we know by now, hotels are far away from being a “normal” real estate.

Alongside the global change in the ownership structure of hotels, lodging properties became an investment and, therefore, became the focus of many financial scholars. Their research regarding risk, return, the financing as well as the optimal handling of such an asset, established the today very prosperous research field of hotel asset management.

In the past few years, many other fields of interest evolved in the sector, mostly driven by actual problems of companies. The problematic relationship between operator and owner, for example, has attracted a lot of researches, engaged in corporate governance studies.

The conclusion one can derive from this is, that research in hospitality management always has and always will be very closely linked to practice. This creates a huge demand for studies and, therefore, it's just natural, that there always will be a dispute about what hospitality management really is too.

2 Hotels as an Investment

Similar to most other industries, the hotel sector offers a source of revenue apart from the operating business. Since touristic ventures, above all hotels are very capital-intensive, only few entrepreneurs are able to finance a new project on their own. This need for outside capital created a whole line of business. Nowadays, most hotels are owned by a number of investors, all originating from diverse areas and all equipped with different levels of expertise and aspirations.

The second chapter of this thesis will thoroughly unravel the mechanics of the hotel investment market by depicting its development, introduce its key-players as well as analyse their respective investment approaches.

2.1 The Hotel Investment Market

As mentioned previously, the Hotel Investment Market in the years prior to 2000 depicted itself as almost inexistent. Small- to medium sized hotels were managed by their respective owners and also the big hotel chains covered both parts within their portfolios.

However, since the year 2000, the situation changed. Due to several circumstances, hotels were discovered as a viable investment by most different types of investors. Those participants were in large parts new to the market, but they managed to leave their marks pretty quickly. Special investment vehicles were designed, designated hotel investment funds were founded and now, around ten years later, we are up against an industry that shifted almost completely.

But what constitutes the attractiveness of a hotel as an investment. Härle/Haller (2007) have summarized the most essential attributes of the hotel investment market.

- The hotel industry is one of the strongest growing branches
- Increasing transparency within the sector and knowledge of the key players
- Compared to other real estate types, high revenues
- High M&A Activity

Since their paper was written before the global financial crisis, the named three additional characteristics, which apparently got obsolete when the crisis peaked in 2008.

- *Huge amount of available capital by funds*
- *Willingness to give out credits by banks*
- *Low interest rate level*

How the loss of those key features affected the industry will be discussed later.

This chapter basically should provide an overview of the crucial points in the evolution of the hotel investment market, introduce its key players and capture what in fact constitutes a hotel as an investment.

Furthermore, additional information should be given about the severe impacts the most recent economic developments had on the sector.

Broadly speaking, we are faced with an industry that only exists just a little bit longer than ten years, has already changed a lot up to now and keeps changing constantly.

2.1.1 Historic Development

As illustrated in figure 4 and already implied in the introduction, the hotel investment market, illustrated by the progress of the global transaction volume in the sector, jump-started its rise in the early 2000's. After a slight decrease in the

year after 9/11⁶, it continuously bulged up to the point when the real estate bubble hit the world in 2007.

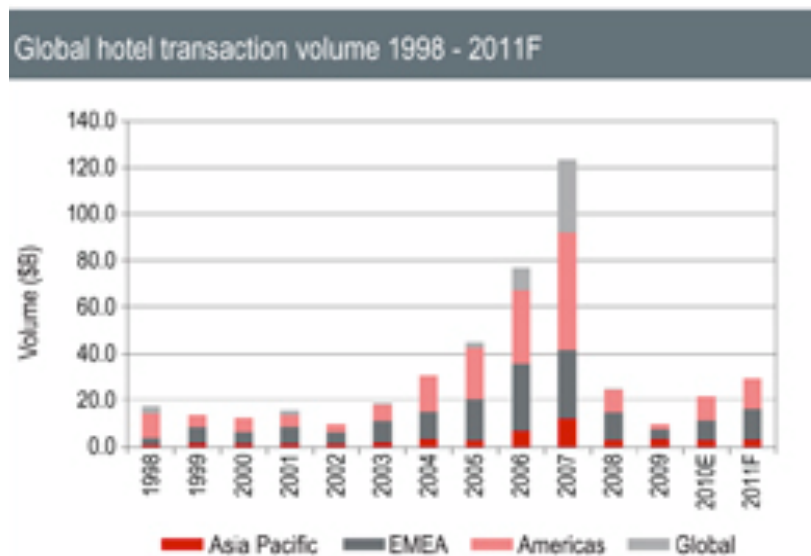


Figure 4: Global hotel transaction volume (Source: Jones Lang LaSalle Hotels 2011)

But going back to the beginning of the new century, what prompted the unprecedented blast of the investment activity in this very industry?

Härle/Haller (2007) find the following explanation: In the mid-90's, big hotel-chains started to pursue a global expansion strategy. In the course of this, their need for outside capital grew. So, to get more fresh capital, a lot of them went public in this period. What they maybe did not have in mind was the possibility of a downswing, which promptly happened in 2000. Stock prices in all industries dropped and so they did in the hotel industry. This led to a disparity between the stock price and the actual value of all the properties of the respective company. Consequently, that triggered two phenomena in the financial markets: For one thing, big private equity companies took advantage of the low prices, bought those companies and subsequently sold the properties while going private again. The other effect was that a lot of consolidations took place because of the low stock prices.

⁶ Impacts of 9/11 on the hotel industry were already discussed in chapter 1.1.1 *Historic Development*

In the aftermath of this sale, private equity companies suddenly owned a lot of hotels, which were still operated by the previous owner. So they integrated it in their portfolio and all of a sudden recognised its quality in generating profits.⁷

On the other hand, the operating companies were also faced with a new situation. They, however, quickly realised, how to make the best of it. No longer in possession of their properties, they could again focus on their core competence: managing the hotel. So they became proactive and sold all their residual real estate. The newly gained capital allowed a lot of innovation. With the exception that they now delivered most of their revenues to the owner of the property, they were back in business. Of course they lacked the return created by the property in this new order, but they also got rid of the corresponding risk. These circumstances led to a re-evaluation of the operating companies at the global financial markets.

To utilize this effect, management companies had to make sure that they would still be in charge of managing the hotels after they sold their premises. *InterContinental Hotels Group* accomplished this manoeuvre. They are still operating 88% of the hotels they sold between 2003 and 2006 (Badenes, 2008). The proceeds of those sales were passed on to the stockholders of InterContinental.

But not all of the encounters between private equity companies and hotel companies ran down this way. A lot of the big public hotel companies are now, in their entirety, in possession of private equity companies, which made them disappear from the stock exchanges. Investors having a stake in those hotels, earn a lot more than they would have by investing in a listed hotel company (Beals, 2008). An overview of the largest transaction, following this *modus operandi*, is demonstrated in tab. 1. Highly notable is the already covered acquisition of *Hilton Hotels* by the *Blackstone Group* with the record prize of 26 bn. Dollar.

⁷ The characteristics of P.E. hotel investments will be discussed in chapter 2.2.5 *Private Equity Companies*

Date	Public Company Target	Private Company Acquirer	Price (US\$bn)
2007	Hilton Hotels	The Blackstone Group	26.0
2007	Harrah's	Apollo & Texas Pacific	17.1
2007	Crescent Real Estate Equities	Morgan Stanley Real Estate	6.5
2007	Highland Hospitality Corp.	JER Partners	2.0
2007	Innkeepers USA Trust	Apollo	1.5
2007	CNL Hotels & Resorts	Morgan Stanley Real Estate	6.6
2006	Four Seasons Hotels	Kingdom & Cascade & Triple	3.4
2006	Intrawest Corporation	Fortress	2.8
2006	Kerzner International	Investor Group	3.8
2006	Meristar Hospitality Corp.	The Blackstone Group	2.6
2006	Fairmont Hotels & Resorts	Kingdom & Colony Capital	3.9
2005	La Quinta Corporation	The Blackstone Group	3.4
2005	Raffles	Colony Capital	1.0
2005	Wyndham International	The Blackstone Group	3.2
2004	Boca Resorts	The Blackstone Group	1.1
2004	Extended Stay America	The Blackstone Group	2.0

Table 1: Private Equity Investment in Public Hotel Companies (Source: Badenes, p.5)

Bearing in mind that notable activities in the hotel investment market first were seen at the beginning of the new century, the market already has seen a lot of ups and downs. However, the most profound shift was caused by the global financial crisis, which was triggered by events within the real estate sector.

2.1.2 Impacts of the Global Financial Crisis

In the years 2006 and 2007, when residential real estates already stumbled, hotel investments kept growing (see fig.4). As far as what we know from research, commercial real estate is always a little behind residential. Therefore, it would have been safe to assume, that the rampant growth of the sector will come to an end sometime. However, some insiders, such as Steve Rushmore of HVS, already had a hunch.

“My prediction: By the end of 2006 most of the hotel funds and investors that are buying up existing hotels at rapidly inflating prices will shift their focus toward new development. It will then take three to five years before excessive overbuilding occurs and we start heading down the cycle again. This doomsday timing either can be extended a year or two if the economy booms and demand

increases rapidly, or it might be shortened somewhat if we go into another recession “ (Rushmore, 2006, p.28).

Three years later, he commented on the circumstances at that point of time, apparently bearing in mind that his prediction three years ago was not that off. The cycle headed downwards. The only thing he did not get right was the cause for this development.

“Today we’re facing a unique down cycle. While new hotel development had been heating up between 2005 and 2007, it didn’t reach the point of overbuilding. As a result, this downturn was not induced by an oversupply problem.⁸ While there was abundant and inexpensive financing available until mid 2007, it was the collapse of the credit markets caused by the defaults in the sub-prime residential sector that led to a drying up of commercial financing starting in 2007” (Rushmore, 2009, p.18).

So what had happened in the meantime?

As in many other industries, the investment volume in the hotel sector went down dramatically. Jones Lang LaSalle reported that the global transaction volume shrank by 76% in the first half of 2008. To get a good feeling of how investors appraise the current situation, big players in the industry went into overdrive, regarding research. In April 2008, the Hospitality Department of PWC conducted a survey amongst 480 individuals, if they think that Hotels are still a good buy (PWC, 2008). Surprisingly, a lot of the interviewees answered this question with yes. They admittedly had some limitations. Furthermore, they, for instance, predicted a slowdown of the highly leveraged buyers and, based on that, a longer holding period of the investments. Still, their recommendations for the remaining year 2008 were positive. (As seen in fig. 5)

⁸ As he predicted in 2006

Investment Recommendation of Survey Respondents



Figure 5: Investment Recommendation (Source: PWC 2008)

After all, history proved them wrong. As seen in figure 6, the transaction volume by the end of 2008 reached a new record low⁹. Economy was on the ground, debt was expensive and as a result, even those, who wanted to invest, were no longer able to do so.

Another defining aspect of these developments can also be seen in figure 6. The percentage of portfolio transactions, which, in previous years, averaged almost three quarters of the total transaction value, fell dramatically. However, this phenomenon can easily be explained with the already mentioned disappearance of the private equity companies. Those were the main buyers and sellers of those large deals.

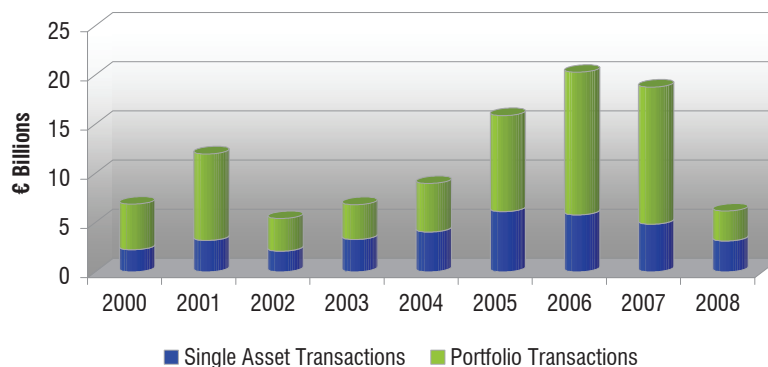


Figure 6: Transaction Volume in EU (Source: HVS 2009)

⁹ Figure is just depicting the European Market, which however is generic for the global development in 2008

Though we know, that the GFC had struck the hotel investment market hard, it is still advisable to look at possible differences between the two major markets in the sector, the USA and the EMEA region.

The USA suffered most, with a decline of 81% (DEKA, 2009). Similar to other markets, the percentage of portfolio transactions dropped in relation to previous years. Private equity companies could no longer accomplish their high leverage ratios within their investments, because the pool of available debt had already dried out. This manifested itself in the fact that private equity companies were amongst the most active sellers in this period in the USA. Buyers mostly were REITS and institutional investors that did not rely on a high leverage ratio.

In the EMEA (Europe, Middle-East, Africa), the volume of transactions dropped by 61%. Like in the USA, portfolio transactions fell to only 45% of the overall transactions. The following number is also notable and characteristic of the scarcity of capital. Only 12 individual acquisitions were made, that were bigger than 100m \$ in 2009 in Europe. In contrast to the USA, however, private equity companies were amongst the most powerful buyers. Furthermore, there was an increase of investors registered that came from the Middle East.¹⁰ It is likely that those countries did not feel the impact of the GFC as much as the rest of the world did.

2.1.2.1 The Aftermath

With the year 2009 still being a tough period for the sector, things slowly got back to normal in 2010. International investors returned to the particular markets and the transaction volume started to grow again. Even the portfolio transactions that barely existed in 2009 began to prosper again.

What remains is that the key characters in the market changed and there is no sign that it will go back to pre-crisis conditions. Now, private equity companies

¹⁰ Ratio of total sales by investors from Middle-East: 26,7% in 2008 to 6,8% in 2007

account for just a small fraction of the activity. In 2010, HNWI and Hotel Investment companies were responsible for 72% of the global transactions (HVS, 2010).

Because of that and some other factors, the investment volume of 2011 is still just infinitesimal small, compared to the record year 2006.

2.2 Hotels as an Investment

The crucial characteristic of hotels as a real estate investment is its lack of options for third-party utilisation. Within the hotel real estate market, you got what you bought and subsequent adaptations due to altered market conditions or shifted investment focuses in your portfolio are highly capital-intensive. What's more, you are also faced with much higher development costs than in residential real estate and, furthermore, your leases will not be as high as they would be, if you owned, for example, an office building. When you finally got some reservations for your rooms, people can still cancel at very short notice.

So, when you invest in a hotel, you do not only commit a large amount of capital for a substantial amount of time, there is also a big chance that you will never see your money again. To cap it all, in contrast to other real estate classes, whose demand is local and can be predicted up to a certain extent, risk features of hotel investments are not easy to assess, because the demand for hotel rooms is always external.

Bearing this in mind, there seems to be no apparent reason to invest in hotels. But as one might have guessed by now, people still do so because of promisingly high yield expectations. Therefore, to mitigate these risk features, people have found ways to split the risk amongst several parties. First and foremost, only a few people invest in a hotel in a way that they own and operate the whole thing. As we know by now, most of today's big hotel companies have an owner that is

distinct from its operator. To illustrate this relationship once more, figure 7 depicts a simplified cash flow diagram of a typical owner-operator relationship.

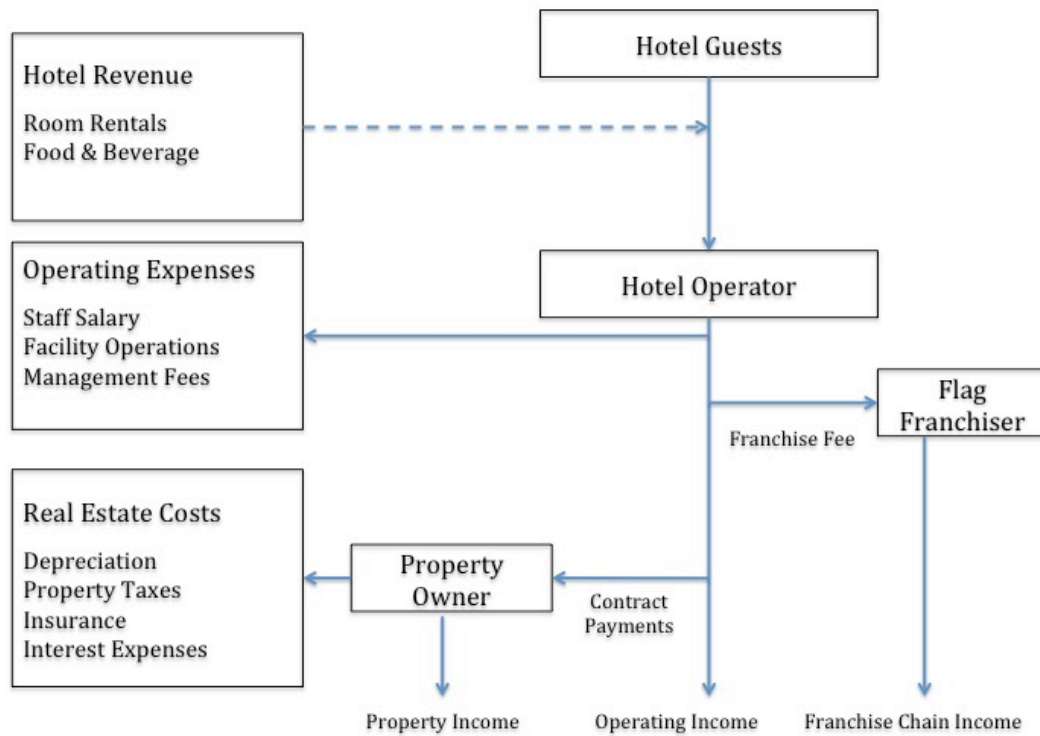


Figure 7: Simplified Cash Flow Diagramm (Source: Adapted from Hess/Liang/McAllister 2001, p.55)

The owner buys or develops the hotel and then “rents” it out to an operating company that will pay him a certain management fee, which does not depend on every day’s revenues. By this, he gets rid of the risk related to running the business. If the operating company is not successful, the owner can always appoint a new one or, in the worst case, sell the underlying property.

Furthermore, to then again minimize the residual risk related to the property, the investor could hold a portfolio of properties in different locations. If the investor does not want to commit his / her whole capital to this portfolio, there is always the possibility of getting other people to invest in your portfolio, which then would make it a fund. Even if these other people are highly risk-averse,

there is a remaining alternative. Many hotel real estate investments are included in a big investment fund that contains investments in many different sectors.

So, investing in hotel real estate now seems not so unattractive anymore, looking at the various possibilities you have tailored to your personal risk profile.

What investor types are present in the market, which investor is attracted by what kind of hotel and what his or her preferred way of undergoing this investment is, will be answered in this chapter.

2.2.1 Actors

In the earlier days, mainly two players assembled the hotel industry, big international hotel chains and stand-alone hotel owners. Both combined the role of the owner and the manager within their enterprise.

Alongside the global change of this paradigm, new players entered the stage. Jones Lang La Salle Hotels lists the following leading actors in the hotel investment market in the year 2007. The Numbers in brackets show their share of overall-buyer activity in the years **2007/2010** (HVS, 2010).

- **High Net Worth Individuals** i. e.: Bahraini Royal Family **7%/23%**
- **Private Equity** i. e.: The Blackstone Group, Colony Capital **42%/6%**
- **Institutional Investor** i. e.: Deka Immobilien, PRUPIM **11%/25%**
- **Hotel operator** i. e.: InterContinental Hotels, Accor, Marriot **11%/7%**
- **Hotel Investment Companies** i. e.: Westmont Hospitality, Pandox SA **18%/23%**
- **Real Estate Investors** i. e.: REITS **11%/16%**

The most noticeable change within these three years was the already discussed retreat of the private equity companies, caused by the disappearance of available debt. Their share was taken over by HNWI and institutional funds, whose capital structure was more applicable in the years of the crisis (HVS, 2010).

Since we now know who is investing, it has to be clarified, where these investors come from. The perpetual change in the industry as well as the effects of the GFC have led to a geographic distribution of buyers that depicted itself in another way every single year since 2008. This development is pictured in figure 9 for the European market.

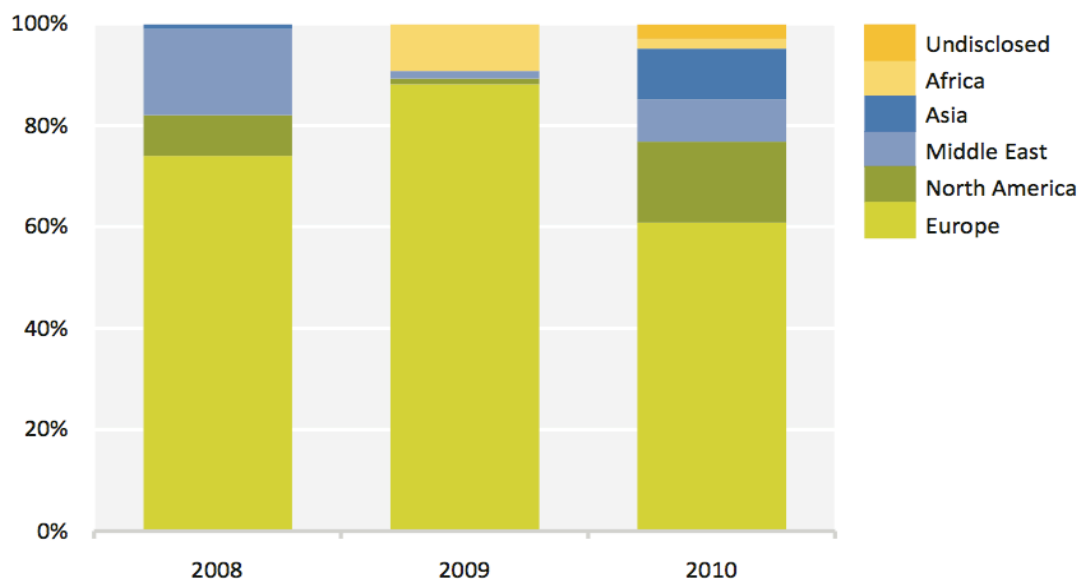


Figure 8: Buyer Analysis by Region (Source: HVS 2011)

As we can see, North America Asia and the Middle East suffered most in the peak year of the crisis (regarding their activity in Europe), while Europe, with its low share of private equity companies and portfolio transactions, regained some strength through its more conservative financing behaviour. In the year 2010, things somehow got back to normal. Private equity companies are still out of the picture, big institutional investors from North America or the Middle East are already closing their huge portfolio deals again, as they did before the crisis.

The number of investor types represented in the hotel investment market is apparently quite manageable. However, their individual preferences regarding hotel types differ a lot. This also applies to their preferred way of investing.

We already discussed the emergence of private equity companies in the industry. Nevertheless, we have to leave them out in this listing, because they do not show a clear preference for a certain type of lodging property. Whether or not, the others have branched out the market amongst them. Which investor is at-

racted by what kind of hotel and what his or her preferred way of undergoing this investment is, will be answered now. Fidschuster et al. (2011) have put out an overview of the different investment strategies, investor types pursue.¹¹

Investor Type	Hotel Type	Property Cycle	Location	Contractual Structure
REITs	Midscale to upscale hotels	Buy in the development stage, hold older hotels too	Prefer cities (mostly prime but also secondary locations)	Fixed lease agreements with solvent operators, preferably chains
Pension funds & Insurances				
Private Equity	Distressed hotels with development potential	At the low end (in need of renovation and/or repositioning) Exit after 1-5 years	No clear pattern	Management Contracts
HNWI	Trophy assets in prime locations	Always	Almost exclusively cities	Risk and profit-sharing models with well-known operators
Institutional Investors	Single Asset: upscale luxury Portfolio: Midscale chains		Cities and resort	Management Contracts

Table 2: Investment Strategies (Source: Adapted from Fidschuster et al. 2001, p.98)

¹¹ Since Fidschuster et al. solely covered investor types that are common in Germany, the list is completed by the author.

The next section should portrait the most important investor types active in the business, including institutional investors, REITS, private equity companies and high net-worth individuals.

2.2.2 Institutional Investors

In the hotel investment market, a lot of different institutional investors are present. Just to name few, there are large insurance companies, mutual funds, pension funds, hedge funds and investments trusts.¹² These organizations have pure real estate funds as well as mixed funds, in which hotels are often used as inflation hedge. The proven negative correlation of lodging properties with inflation, but also its negative correlation with the general stock market has attracted many investors. Furthermore, the stagnating returns of lodging-stocks have drawn many funds to the property section (Quan/Li/ Sehgal, 2002).

In today's investment, market portfolio transactions are rare because of their difficult financing. However, institutional investors have managed to be the last remaining player in this field of business. In Europe in 2010, they accounted for a transactions volume of € 1.6 billion, which consisted of 14 single-asset transactions and five portfolio transactions. Their risk-averse strategy was a good argument whilst the credit crunch, when it came to talking banks into giving out loans (HVS, 2011).

Regarding their preferred hotel type, they, of course, are looking for constant yields, which they mostly find in upscale-luxury, prime urban locations. But also large portfolios of midscale hotels can offer good yield prospects (Jones Lang LaSalle, 2011). As we saw in previous chapters, institutional investors have just recently gained a larger market share in the hotel investment market because of the omission of private equity companies.

¹² REITs (Real Estate Investment Trusts) will be discussed in chapter 2.2.3 *REITs*

2.2.3 Real Estate Investment Trusts (REITs)

By definition, REITs (Real Estate Investment Trusts) are corporations, which own and manage, but also finance real estate. To be classified as a REIT, those corporations have to fulfil certain requirements. Moreover, to give the prevalence of this business model a push, governments all over the world offer favourable taxation measurements to REITs, such as a total exemption from all corporate taxes.

Apart from some slight differences, there are a handful of requirements REITs have to satisfy in all of the countries (Sotelo , 2007/ Liu, 2010).

- No more than 50% of the shares may be held by five or less distinct owners. (Institutional investors do not account as one person)
- 90% of the income must be passed on to shareholders
- 75% of all revenues must be generated with real estate (leases, rents, selling)
- A minimum of 100 shareholders is required and shares must be conveyable at all time

REITs originate in the USA, where they were introduced in 1961. Since then, a lot of amendments were passed to design the tax designation described above. The Netherlands (1969), Belgium (1995) and France (2003) were the first countries in Europe that passed corresponding laws. The UK and Germany eventually followed in 2007. All of these countries (and the others around the world) ¹³ had to entrench certain REIT laws, where peculiarities, like, for example, taxation, are regulated.

¹³ Countries to have REITS installed in addition to the ones mentioned are: Australia, Japan, Canada, Korea, Singapore, Hongkong and Malaysia

In the USA, different REIT classes have few distinctive features. This regularity is also seen in other countries with some negligible differences regarding their implementation.

Broadly speaking, there are two main categories of REITS. Publicly traded REITS and OTC REITS.

However, the prevailing type is the publicly traded REIT. This again can be subdivided into mortgage REITS, equity REITS and hybrid REITS. These categories are pretty much self-explanatory. Equity REITS invest in actual real estate, mortgage REITS make their money with trading with mortgage obligations and hybrid REITS combine those two approaches (Jackson, 2008).

Regarding its shareholders, REITs turned out to be much more favoured by institutional investors than by small investors. Besides, especially pension funds and insurances discovered REITS as a viable and most of all stable investment. This is perhaps down to the fact, that the scope of REIT managers is much more limited than the one of hedge fund- or private equity executives. Furthermore, this limited discretion minimizes the amount of free cash flow that could be spent on negative NPV-projects. This mechanism failed in the mid 1990s and promptly caused a severe depreciation of REITs. After regulations were tightened again, things got back to normal. This effect is perfectly in line with Jensen's findings (1986), that Managers tend to grow companies beyond their optimal size (Jensen, 1986).

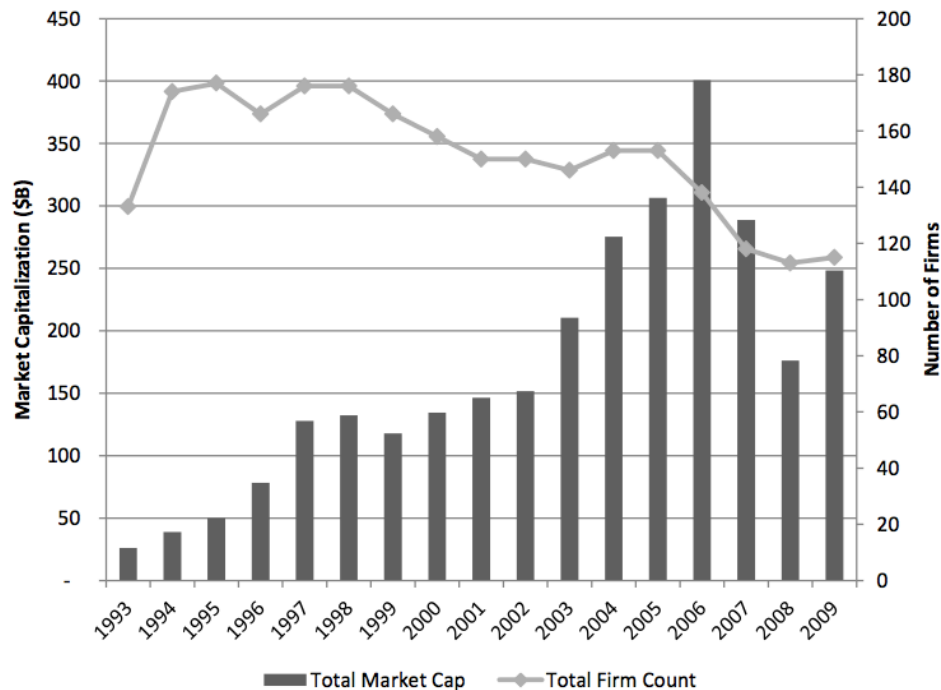


Figure 9: REIT Equity Market (Source: Feng, Price, Sirmans 2011, p.29)

Today (2011), REITs manage approximately \$ bn. 150-200. In figure 10 it can be seen that in contrast to other real estate investment vehicles, the downward swing in the REIT market began long before the Real estate bubble burst in 2008. As mentioned, REITS experienced depreciation by the market in the beginning of the century, which eventually had nothing but good consequences. As a matter, of course, REITS also went down during the credit crunch, but due to their conservative way of financing and continuous cautious pricing of all REIT products, they did not suffer as much as other real estate investment companies and, furthermore, took less time to recover afterwards.

2.2.3.1 Hotel REITS

Over the time, REITS more and more specialised on certain real estate types. Today, 93% of all REITs are specialized. A possible reason for that could be the fact that the various property types differ very much, regarding their average

business cycle. Also a lot of inside knowledge is needed in the respective category to secure the investments. This especially accounts for hotels.¹⁴

Hotel REITs fall in to the category of equity REITs. Within this class, they are known as the “diva” of property types because of their unpredictability and enormous running expenses.¹⁵ However, they only play a small role in the worldwide REIT market. Their fraction of the above mentioned total market capitalization of REITs is small. They approximately account for 10% (see fig. 11)

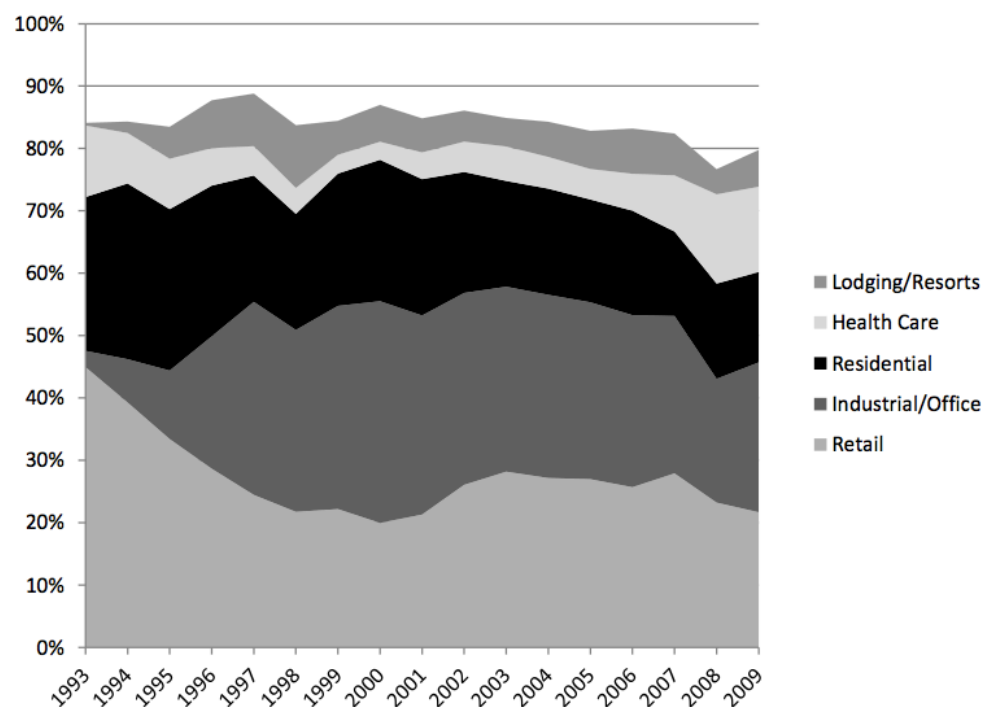


Figure 10: Market Capitalization by Asset Type (Source: Feng, Price, Sirmans 2011, p.30)

Even if hotels only play a small role in the worldwide REIT market, within the lodging industry, the percentage of hotels bought by REITS is fairly high. (16% of the total transaction volume in 2010). The chief advantage of REITs, regarding the acquisition of hotels, is their mezzanine, like financing mix. In many cases

¹⁴ Hotel REITs also have all the features of REITs that were just described.

¹⁵ Average yields of hotel REITS will be covered in chapter 2.3 *Performance*

(and especially during the GFC), debt was far too expensive for hotel investors and traditional equity on the other hand would have given the shareholders too much influence. Therefore, REITs are very popular within management companies. Consistent with this fact, REITs first and foremost invest in upscale hotels, which are managed by some of the big global players, like Hilton or Marriot.¹⁶

2.2.4 High Net-Worth Individuals

When it comes to high net-worth individuals (HNWI) investing in hotel real estate, you constantly stumble over one particular keyword: “Trophy Assets”. HNWI do not worry that much over valuation standards as other investor types do. What matters for them is the prestige that comes along owning a landmark building in one of the major European cities, such as London or Paris. Therefore, also a lot of unsuccessful investments are seen in this sphere. However, HNWI accounted for over 23% of all buying activity in 2010, which makes them one of the major forces in the market. Unfortunately, they are not easy to pin down, when it comes to observable investment patterns. But at least to some extent it is known, who they are.

So what are the characteristics of an individual that invests in hotel real estate? The MIT department of architecture conducted a survey amongst 1018 HNWI¹⁷ in 2002. One of the results was that the minimum threshold for being a successful hotel investor is \$ 10,000,000 in liquid assets (as a portion of 30%-40% of total net worth). But most of the deals undergone by those investors exceed \$ 25,000,000.

Only 7% of the sample indicated themselves as risk-averse. The portion of their private portfolios they on average intend for investments in real estate is 6%

¹⁶ In 2006, REITs only accounted for 3 % of the US hotel market. However they were responsible for a striking 9 % of total hotel turnover

¹⁷ Juliá / Matthei, 2002

(other parts of the portfolios are bonds, stocks and cash). Once they decided to invest in real estate, 83% of the respondents stated that they prefer direct ownership to partnership structures. In the majority of cases, their brokers or asset-managers handle the post-investment management, but the individual investor makes the decision of buying or not buying.

Although there is no clear action pattern of HNWI visible, they play a role in the market. To get at least a glance on how they derive their decisions, an interview with one HNWI will be made in the empirical part of this thesis.

2.2.5 Private Equity Companies

We already discussed both the emergence of private equity companies at the beginning of the century and their sudden disappearance whilst the global credit crunch. Today, it seems that piece-by-piece, they are re-entering the market. Needless to say under conditions different from those ten years ago. But what were the particular circumstances that facilitated the rise of private equity companies in those days and what changed in the meantime?

This chapter should answer what can be so extremely successful as well as extremely risky about the way private equity companies invest their money in hotels.

2.2.5.1 *Investment Approach*

Private equity companies want to buy low and sell high. This, of course, is not a unique characteristic amongst investors, though the ruthlessness, which is inherent to their style of pursuing this paradigm, is sublime. Private equity companies start to think about a possible date for an exit before they undergo the investment. Again, all investors do that. However, the holding period private equity companies schedule for their investments is barely a fractional amount of

the time, other investors in average hold a hotel. By means of their special contract design, they are not even obliged to observe any kind of minimum holding period. Therefore, it is not surprising, that holding periods of less than one year were observed at that time. Howsoever, the key to their success is the leverage buyout (LBO), but more about that later.

In the initial stage, the private equity company raises money through a private equity fund. Those funds are closed funds, so the investors are not allowed to redeem their investment until the fund is dissolved. The investors (limited partners) in this fund provide the capital. This group is usually made up of wealthy individuals, foundations, institutional investors etc., which almost never have rights of co-determination regarding the usage of their money. Before potential profits are passed on to the shareholders after termination, the private equity company deducts a management fee as well as a share of the profit.¹⁸

However, the money raised from investors as equity is just a small fraction of the money the private equity company uses to buy potential targets. In fact, only 10% to 30% of the transaction is financed with equity. The major part consists of partly senior and partly junior debt and loans. These loans are provided by banks, but also by other financial institutions, which, of course, are distinct from the ones providing the equity. The new executive board also provides a small fraction. In this new board, proxies of the private equity company are present in most of the cases (Kaplan/Strömberg, 2008).

Private equity companies look for targets that are currently undervalued, yet promise a high cash flow after restructuring¹⁹. Within their approach, they paradigmatically exploit the “Modigliani Miller Proposition I” by duplicating the firm they just bought with a much higher debt-level. If the initial FCF of the target was high enough that the WACC exceeded the cost of debt, any new debt

¹⁸ In some cases up to 20%

¹⁹ Jensen (1986) would see another source of danger in the high free cash flow. According to him, it generates high “agency costs of free cash flow”

that can be raised at the same costs, will increase the return on equity.²⁰ By duplicating the firm, private equity companies can also safely assume that the “new” company has the same business risk (β_a) as the old one. The changed capital structure, of course, leads to diverging financial risk, caused by different β_E . Ultimately, they end up with a different required rate of return.

Corgel (2008) illustrates this with a simplified example.

Assume a hotel REIT has \$75 million in FFO (funds from operation – similar to earnings) and its stock is trading at \$20 per share. The REIT has the following cost of capital components:

$$\begin{aligned} R_e \text{ (equity cost of capital)} &= .12 \\ R_d \text{ (debt cost)} &= .06 \\ D/V \text{ (ratio of debt-to-value)} &= .50 \\ E/V \text{ (ratio of equity-to-value)} &= .50 \end{aligned}$$

The weighted average cost of capital (R_t) is

$$\begin{aligned} R_t &= .12 (.50) + .06 (.50) \\ &= .09 \text{ or } 9\% \end{aligned}$$

The estimated value (V) of the REIT based on FFO and R_t becomes

$$\begin{aligned} V_t &= \$75 \text{ million} / .09 \\ &= \$833,333,333 \end{aligned}$$

The REIT has 17,500,000 shares outstanding. Thus the equity value (V_e) is

$$\begin{aligned} V_e &= \$20 \times 17,500,000 \\ &= \$350,000,000 \end{aligned}$$

Coincidentally, \$350,000,000 is the NAV – total equity value of all the hotels owned by the REIT. Thus, the hotel REIT currently trades at a discount to NAV.

The value of the outstanding debt also equals \$350,000,000 making the market value \$700,000,000.

An opportunistic PE firm recognizes that they can buy the hotel REIT worth an estimated \$833,333,333 as a private company for a total cost including debt assumption and a 28 percent price premium for the stock (\$25.60 per share) of approximately \$800,000,000 (value as a public company). The firm completes the transaction. Immediately thereafter, the PE firm introduces additional borrowing that brings the debt-to-total value ratio up to 80 percent. The PE firm has the same R_e and R_d as the hotel REIT, therefore, their R_t is

$$\begin{aligned} R_t &= .12 (.20) + .06 (.80) \\ &= .072 \text{ or } 7.2\% \end{aligned}$$

The value (V_t) of the REIT based on FFO and the PE firm R_t becomes

$$\begin{aligned} V_t &= \$75 \text{ million} / .072 \\ &= \$1,041,666,667 \end{aligned}$$

Given the PE firm's ability to quickly act on the market undervaluation of the hotel REIT, the PE firm added \$33,333,333 (\$833,333,333 - \$800,000,000) in value for their investors. Given that the PE firm can add leverage to the investment, they added another \$208,333,334 (\$1,041,666,667 - \$833,333,333) in value. These value enhancements elevate investor IRRs by several percentage points as long as the hotel properties continue to produce cash flow of \$75 million or more.–J.B.C.

Figure 11: How Private Equity Firms add Value (Source Corgel 2008, p.11)

As we see in figure 12, private equity companies can add value by exploiting currently undervalued companies. And given the logics of CAPM, the calculation of

²⁰ We know that raising more debt makes the existing equity riskier. This explains why not all private equity deals worked out.

the new total value (V_t) is also correct. In this calculation, Corgel insinuates a constant WACC over time. Especially within LBOs however, WACC is most likely to change, because the high debt service will ultimately affect the debt-to equity ratio. Therefore, APV, for instance, would be a more appropriate approach.²¹

Despite the scientific discordance on how they did it, private equity companies managed to earn some money over the last ten years. So, which approach might be the best to explain their behaviour, is definitely subject for further research.

2.2.5.2 Exit

If private equity companies really want to generate their promised IRR, it is necessary that the disposal price is by far higher than the amount they paid for the company. But how can they secure their planned exit?

Private equity companies basically embark two strategies regarding their scheduled exit: One approach is to buy in periods when the global economy respectively the hotel market is down. Then they can buy at a very low price and generate their margin just by waiting. Inconveniently, economic cycles do not always behave like they should. Therefore, so-called extension periods are stipulated. They permit the private equity companies to lengthen their holding period, if economic recovery is taking its time.

The other approach is, that private equity companies actively engage in restructuring or rebuilding the hotel. By this, they can estimate to some extent when the hotel will be profitable again.

²¹ When looking at the LBO approach by means of the static trade off theory, the business model would not be recommended by many, because the agency costs of debt by far outweigh its benefits.

The other important question apart from *when to sell* is *who to sell to*? This question is always a core part of every private equity company's strategy before they even buy the target.

As in the example demonstrated in figure 12, most private equity deals involve hotel portfolios. (See *Blackstone-Hilton deal*) This ensures at least a little bit of safeguard, for the simple reason that individual casualties can be absorbed.

Those portfolios are mostly bought by either strategic investors that are already in the business and want to gain a larger market-share or by institutional investors that need a real estate portfolio as an addition to their multiple-asset portfolio.²²

Also IPOs are a popular way of exiting an investment amongst private equity companies. By transforming their hotel portfolio into a corporation they go public.²³ In many cases, hotel portfolios of private equity companies are turned into a REIT to do so. The most prominent example is the Starwood Capital Group that turned its complete portfolio of hotels into the Starwood Lodging Trust.²⁴

In case the portfolio in possession of the private equity company is very heterogenic, it's also seen that hotels are sold in detail. However, within this approach, the number of potential buyers is vanishingly low. Expect the private equity company and the former hotel owner agreed on a sell-and-buy-back deal beforehand. For smaller private equity companies it is common to buy distressed single-asset hotels from their creditors, restructure it together with the owner

²² In rare cases, the buyers again were private equity companies. This is however very unlikely, because they normally try to buy low and sell high and this cannot be reached for both. Only when private equity companies want to exit on impulse, solely other private equity companies come into question as buyers because they might be the only ones that can lift the debt level. This happened to the hotel chain Le Méridien, which had five different owners between 1996 and 2003, all of them being private equity companies.

²³ In some cases the original company was traded publicly before it was bought, streamlined by the private equity company and then got listed again.

²⁴ Starwood Hotels remained as operator, enabled by the status of another REIT they bought before. This REIT was grandfathered in the REIT law of 1984 and was granted the paired-share status, which then was passed on to Starwood. Therefore, they are allowed to generate their earnings from lodging as a REIT tax-free (as Starwood Lodging Trust) and their earning from service as Starwood Hotels (Fundinguniverse.com, 2011).

and afterwards sell it back to them, mostly with a huge portion of the price being a loan (Holzmann/Frehse, in Frehse et al. 2007).

Nowadays, private equity companies are no longer frequent buyers in the hotel real estate market (as in most industries). This is, of course, due to the fact that their highly leveraged deals were not possible any more.

Howsoever, there again will be a time when interests rates develop in their favour at the same time, as lodging properties will be a good buy again. By then at the latest, we'll have to consider putting private equity companies back into the equation.

2.3 Performance

One of the crucial questions for investors, if not the all-important question, is, what a prospective investment might yield. What we know from looking at the historic development of the hotel investment market, investors underwent heavy swings in all times. Its most apparent difference to other real estate investments is the lack of a fixed lease to secure income. Renowned seasonal fluctuations and the possibility to cancel reservations at very short notice diminish the attractiveness of hotels in contrast to residential properties which constantly yield the same amount every month. However, there are still some people investing in lodging assets. Obviously, owning a portfolio of luxury hotels is more risky than renting out an office building. In return, the yields can be more appealing.

Despite the fact that the hotel investment market has not a very long history, it got its investors some extraordinary booms as well as devastating downswings.

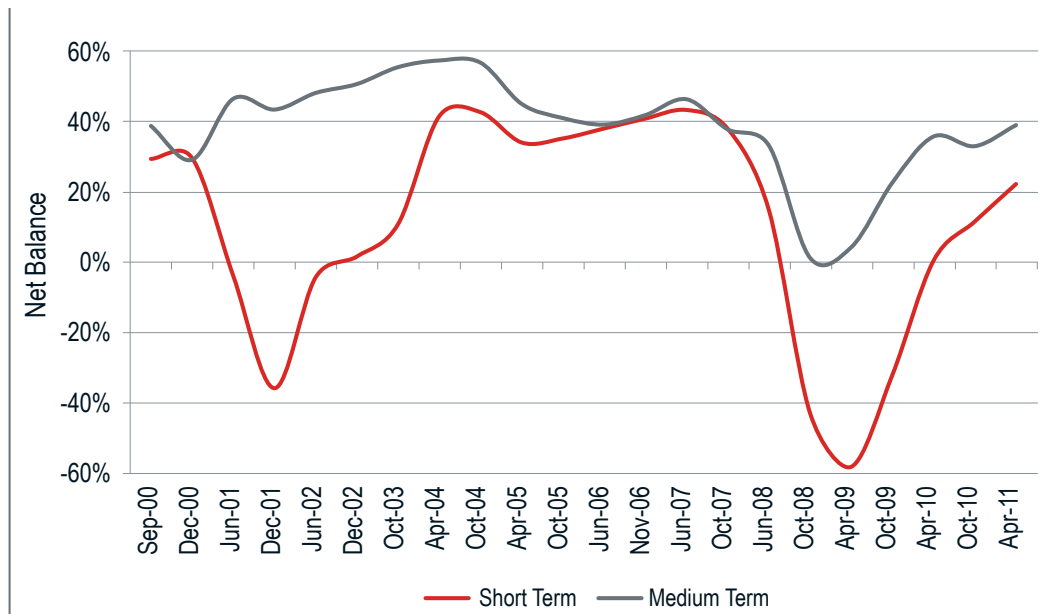


Figure 12: Global Trading Performance Expectations 2000-2011 (Source: JLLS 2011, p.1)

As we see in the synopsis of Jones Lang LaSalle's yearly investor sentiment survey (ISS) in figure 13, investors already bank on a certain kind of unpredictability of the hotel market. As explained well enough, the hotel market reacts very fast to even the slightest changes in the global economy. Nonetheless, lodging assets always had the reputations to serve as an inflation hedge. In a seminal paper, Gyourko and Linnemann (1988) stated that especially REITS show a strong negative correlation to inflation. Yet, nowadays, their results are questioned with increasing frequency, because more and more evidence is found that lodging assets may in general be more of an inflation protection than a hedge, because they apparently react positive to inflationary environments (Quan/Li/Sehgal, 2011). Beyond answering this question, this chapter should provide evidence on the performance of hotels, both as a single-asset investment and as part of a portfolio.

2.3.1 Expectable Yields as a Single-Asset

Since hotels that are not part of a large branded chain are unique as every other single property, it is barely impossible to make some general statements about hotels as a single-asset investment²⁵. Moreover, the ones buying individual hotels mainly are HNWIs and private equity companies. HNWIs, as a matter of fact, never publish the returns of their investments. It though can be assumed, that within their investment policy of choosing target objects by their prominence and prestige, returns may be not that pleasing all the time. On top of that, margins in the luxury sector are not that high, especially when you own just one object. To get a good feeling for the magnitude of these transactions, HVS reported that in 2009, the average price per room paid in single transactions was € 253.000. At the top end of the list they found the “Grosvenor House” in London, which changed hands for over € 800.000 per room (HVS, 2010).²⁶

If things are going well and it is altogether part of their strategy, HNWIs will rake in a profit, when selling the premise. The same is true for the private equity companies, which distributes possible capital gains to their shareholders not until the exit.

As we will see in the empirical part, it is not that unusual for individuals or organisations to own one hotel. However, those people tend to be real estate developers, caterers or architects, who design a new hotel, come up with the entire strategy and by themselves look for a manager to run the business. But this business model can hardly be described as a comparable investment to buying a share of a real estate fund. As the findings in the empirical part will show, within individual hotel projects, ROIs range between 3% and 4%.²⁷

²⁵ When we use the term single-asset we have to differentiate between single-asset transactions, which we addressed in chapter 2.1 *The hotel investment market* as a portion of total transactions and hotels as a single-asset investment, meaning an individual or organisation owning one hotel. Although single-asset transactions accounted for 50% of all market activity in 2010, it can be assumed that a huge amount of the respective buyers already were in possession of other hotels and by the “single-asset transaction” just added another one to their portfolio.

²⁶ Altogether, the Dubai located Sahara Group paid € 560 million for the hotel.

²⁷ ROEs are mostly negative due to the fact that the financing mix still inclines to debt financing.

What we know is that there are at least some notable differences between the expectable yields of the different hotel types. We know that individual five star upscale hotels barely yield any returns for their investors. To make a profitable investment in the luxury sector, one has to invest into an upscale hotel chain, like, for instance, Marriott or Hilton, because they are the only ones able to generate substantial profits in this sector. If an investor's desire were to invest in an individual hotel, a big midscale business hotel or a well-located (and preferably also quite big) resort would be the best choice. But assuming that a good location and a sufficient amount of rooms will yield you a satisfying profit in any case is highly naïve. The mix of a good location, the optimal size of the property, an adequate design and strategy and above all, a capable manager is the key to success. But only few people are able to spot those rare combinations amongst the thousands of hotel projects that are in the pipeline every single year.

Evidently, owning an individual hotel is not always a very promising investment, particularly when you do not have any knowledge of the industry.

2.3.2 Expectable Yields in a Portfolio

The positive role of lodging properties in cross-sectional portfolios and real estate portfolios has been neglected for a long time. Two seminal studies that are undermining the value enhancing role of lodging assets will be presented in this chapter.

The first study was carried out by Daniel Quan, Jie Li and Ankur Sehgal and published in "Cornell Hotel and Restaurant Administration Quarterly" in 2002. The authors tried to examine the returns, the volatilities and the diversification potential of lodging assets between the years 1995 and 2000. For this they looked at the Lodging Property Index (LPI), which is listed by the "Cornell University School of Hotel Administration" every quarter of the year. To see how lodging properties performed against other commercial properties, they also looked at the Index of the "National Council of Real Estate Investment Fiduciar-

ies” the NCREIF. To then again compare lodging returns to other industries, they also depicted the development of the S&P 500 stocks and other indices in the respective time period. Figure 14 illustrates the cumulative growth for 1 \$ invested in 1995.

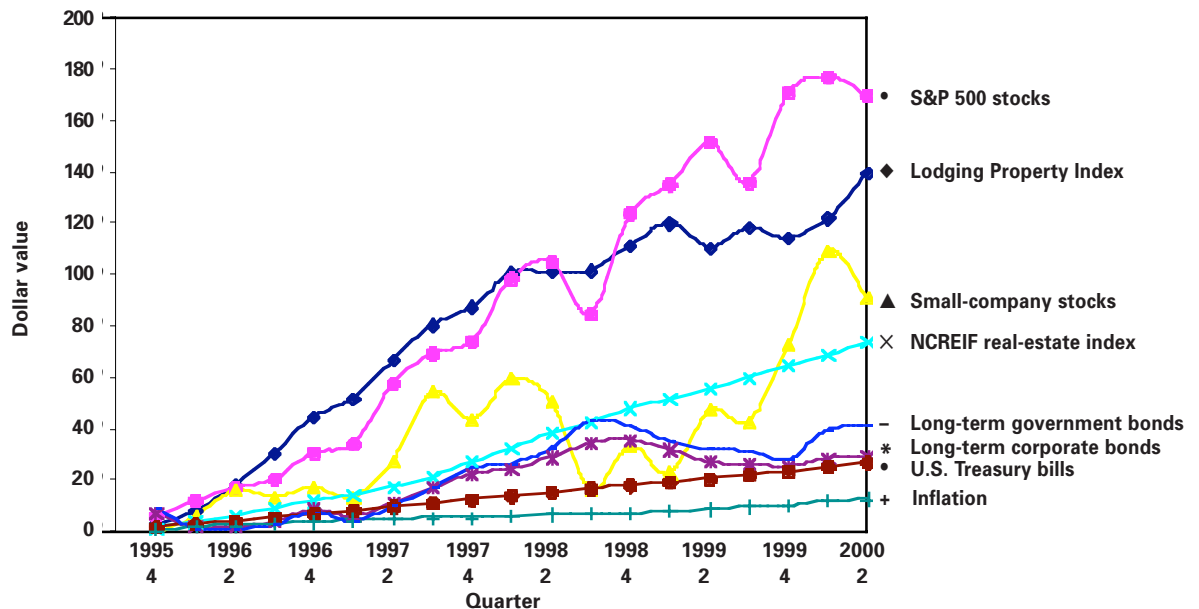


Figure 13: Cumulative Wealth Indices of Capital Market Securities 1995-2000 (Source: Quan et al. 2003, p. 84)

It has to be noted that the period between 1995 and 2000 constituted an abnormal upswing in the hotel business. But since the whole economy was doing relatively well at this time, some significant comparisons can be made.

To get a picture of the corresponding risks, the authors also listed the standard deviations of the seven asset classes. (See tab. 3) As we can see, raw returns of the LPI were similar to those of the other well-performing assets. However, they had a much lower volatility, which leads Quan et al. to the conclusion that risk-adjusted returns of lodging assets are more appealing than those of the other asset classes. In addition to that, we see that lodging properties in the mid-price segment yielded the highest returns, followed by those in the upscale segment.

	Arithmetic mean	Geometric mean (compounded return)	Standard deviation
S&P 500 stocks	5.62	5.36	7.63
Small-company stocks	4.18	3.46	12.43
Long-term corporate bonds	1.39	1.34	3.29
Long-term government bonds	1.92	1.82	4.73
U.S. Treasury bills	1.25	1.25	0.09
NCREIF real-estate index	2.95	2.94	0.82
Lodging Property Index			
Aggregate	4.79	4.70	4.25
Upscale	6.19	6.09	4.62
Midprice	7.50	7.31	6.67
Economy	0.71	0.61	4.55

Table 3: Returns 1995-2002 (Source: Quan et al. 2003, p.85)

The third question the authors examined was the diversification potential of lodging assets. To answer it, the correlations between the examined asset classes were compounded. (See tab. 16)

	Lodging Property Index	S&P 500 stocks	Small-company stocks	NCREIF real-estate index	Long-term corporate bonds	Long-term government bonds	U.S. Treasury bills	Inflation
Lodging Property Index	*							
S&P 500 stocks	0.13	*						
Small-company stocks	-0.02	0.68	*					
NCREIF real-estate index	-0.06	0.06	-0.14	*				
Long-term corporate bonds	0.26	0.02	-0.13	0.19	*			
Long-term government bonds	0.10	-0.19	-0.13	0.15	0.93	*		
U.S. Treasury bills	0.36	-0.40	-0.29	-0.22	0.56	0.62	*	
Inflation	0.04	-0.36	0.16	-0.33	-0.52	-0.28	0.02	*

Table 4: Correlations of LPI with other Asset Classes (Source: Quan et al. 2003, p.87)

The table shows that the LPI is positively correlated with T-Bills and long-term corporate bonds and negatively correlated with small-company stocks and the NCREIF. Therefore, the negative correlation with small-company stocks would suggest a portfolio that includes small-company stocks as well as lodging prop-

erties. Then again, the negative correlation with the NCREIF is another sign that lodging properties develop countercyclical to other commercial real estate.²⁸

The purpose of the second study, conducted by Gabriel Petersen and Arjun Singh in the “Journal of Retail & Leisure Property” also in 2003, was to get a closer look on the relationship between lodging assets and other real estate classes. Therefore, they examined the development of the NCREIF²⁹ between 1982 and 2001. In a similar fashion to the previous study, they show return figures for the respective time-period for the real estate asset classes office, retail, industrial, apartment and hotel. Instead of the risk-adjusted return they use the sharp ratio. Now we see that hotels are by far not the best real estate asset class. Apartments, for example, showed a higher return accompanied by a lower risk and as a result also a higher sharp ratio than hotels.

Moreover, table 6 demonstrates what the authors really wanted to drive at: The diversification potential of hotels in a multi-property portfolio. Their conclusion is that a portfolio of hotels, retail property that also makes use of the inflation protection feature of hotels, which is shown by the low correlation of hotels with the CPI.

²⁸ The danger of an inherent autocorrelation with lodging properties and the NCREIF is not really given because lodging properties just account for approximately 1 % of the NCREIF. (Petersen/Singh, 2003)

²⁹ “The NCREIF index is an index of the quarterly total returns of the commercial real estate properties held for tax-exempt institutional investors by the members of the NCREIF. The database includes only investment-grade properties and uses pre-tax and unleveraged performance measures for calculating rates of return. Development projects are excluded from the sample, and the market value of properties is determined by appraisal methodology, which is consistently applied”. (Petersen/Singh, 2003, p.162)

	Office	Retail	Industrial	Apartment	Hotel
Average semi-annual return (%)	3.24	4.18	4.33	4.95	4.02
Risk (standard deviation) (%)	4.20	2.79	3.09	2.50	4.98
Sharpe ratio	-0.10	0.19	0.22	0.52	0.07
Annual return (geometric mean) (%)	6.09	8.04	8.33	9.59	7.57
Average return (annualised) (%)	6.58	8.53	8.86	10.15	8.20

Table 5: Risk and Return 1982-2001 (Source: Petersen, Singh 2003, p.164)

	CPI	GDP	Office	Retail	Industrial	Apartment	Hotel
CPI	1.00						
GDP	0.28	1.00					
Office	-0.15	0.25	1.00				
Retail	0.14	0.45	0.63	1.00			
Industrial	-0.12	0.26	0.96	0.70	1.00		
Apartment	-0.03	0.35	0.79	0.61	0.79	1.00	
Hotel	0.04	0.07	0.50	-0.06	0.43	0.34	1.00

Table 6: Cross-Correlation Matrix 1982-2001 (Source: Petersen, Singh 2003, p. 168)

A high net-worth individual buying an upper-class hotel nearby New York Central Park is not a very good example for a good strategy within the hotel investment market. A single upper-class hotel will yield you close to nothing, mainly due to the high fixed costs associated with running such a business. If you want to benefit from owning a hotel apart from the plain joy of possessing it, it might be advisable to invest in a fund that has a portfolio of different lodging properties, in the best case alongside other commercial real estate. In this case, you will also not have to worry about the appropriate contract design for these hotels, while the manager of your fund would be well advised to do so.

2.4 Contracts

Contracts between the owner and the manager of a hotel are the determining factor for controlling their relationship. Problems that can arise in consequence of a badly designed contract are commonly known as principal-agent problems. Therefore, contract designers should anticipate possible information asymmetries and try to prevent situations that would create moral hazards for the managers or lead to hold-up risks. But as we know, many principal agent problems cannot be anticipated and have to be solved on the spot. This, however, lies within the scope of the hotel asset-manager, who has a whole chapter reserved for him (Chapter 3.3 *Hotel Asset Management*).

Things that can be regulate within the contract are the responsibilities for maintenance on one hand and, much more important, the attribution of profits and losses between the two affiliates (Baurmann, 2007).

Essentially, we have to differentiate between two main types of contracts. Leases, which can be fixed leases, stepped rents or percentages leases and management contracts, which are gaining ground because they much more favour the active investor, who also wants to take risks. This is also the reason, why they will be emphasised in this chapter. For the sake of completeness, a brief overview should be also given on lease contracts. After all, they were the prevalent form of contracts for a very long time.

First, we have to capture what factors are involved in the decision of what type of contract may be the right one. Baurmann (2007) lists the following decision criteria.

- Risk-profile of the manager (Risk averse managers will prefer lease contracts)
- Desired fiscal type of income of the investor (Income from commercial business requires a management contract, income from rent and lease a lease contract)

- Legal form of the enterprise (most management contracts require at least a c-corporation)

However, it can be assumed that the owner will be the dominating part in choosing a type of contract, he being the one who can lose a lot of money in contrast to the manager, who can lose his job. The basic principle for the investor is: The more risk he is willing to take, the more influence he's going to get.

2.4.1 Lease Contracts

Baurmann (2007) lists the following, most conventional forms of lease contracts:

Fixed lease contract: The lease is perpetually a certain percentage of the investment (mostly around 6%). Very risk-averse investors prefer this form. It requires a manager that has an excellent credit rating. If this is the case, fixed lease contracts can be very lucrative for the investor, if business is going well.

Lease contract with stepped rent: In the early stages, the lease is well below average. After a certain time it gets a little bit above average. This should help the manager survive the difficult early years. The investor though can generate a higher yield after a certain period of time.

Fixed lease with percentage lease: In addition to a well below average fixed lease, the manager has to pay the owner a percentage of the revenues (mostly around 8%). This discharges the manager in hard times. The investor though gains a larger share when things are going good.

Percentage lease contracts: The manager has to pay a certain percentage of the revenues as a fee (mostly around 25%). Within this model, the investor receives a much bigger share in profit as well as in losses.

2.4.2 Management Contracts

Management Contracts, as we see them today, evolved in the hotel investment business during the expansion of the big chains in the 1970s. In the early stages, they were mainly used to regulate the relationship between the owner and the manager, which though was just a subsidiary of the owner. The purpose was also to split the risks between operating the hotel and owning the property, which however was only due to financial reasons, since it was the very same company. Therefore, contracts back then were pretty straightforward in terms of complexity.

When the big chains started selling their properties to distinct investors, management contracts became much more substantial. Today, their configuration is the very basis of the decision of an investor, whether to invest or not and of the operator, whether to undertake the management or not.

Jan deRoos (2010), executive director of the “Center for real estate finance at the Cornell School of Hotel administration” mentions, amongst others, four crucial components of a state-of-the-art management contract.

1. The Legal Framework

Who are the parties to the contract?

In most cases, the investing company as well as the operating company found subsidiaries for the respective project to enhance the transparency for lenders.

Who is the employee of the staff?

In early days, this was different case-by-case. Latest developments however show that the operating companies prefer to encounter this position because it allows them to transfer the staff between their various hotels.

Who owns the real property and who the intangible assets?

In all cases the investor is in possession of the property. In some cases, however, investors try to get the operator to buy a share of the property to enhance his commitment. The intangible assets, such as data, records etc. are in a lot of cases also in possession of the investors, unless the operator is a big chain with a well-known brand.

2. Term, and termination rights

The duration of the contract is hinging on the standing of the operating company. If it is a well-known brand, longer terms can be negotiated as if it were an independent company.

Branded operators also have stronger termination rights that allow them to challenge every termination by the owner if it was “without cause”.³⁰

3. Fees (Discussed in chapter 2.4.2.1 Fees)

4. Reporting and Controls

As far as reporting standards are concerned, there is not much scope for the affiliates. Especially when one or both of them are listed firms, international regulations, like IFRS, must be followed.

Because operators work on behalf of many different owners, it can happen that two hotels of the same brand but with distinct owners are in close vicinity of each other. Owners try to prevent this scenario with a so-called territorial-protection clause that forbids the operator to undertake the management of a property within a certain distance to their hotel.

2.4.2.1 Fees

The standard set up for the regulation of the management fees is a combination

³⁰ Often performance related termination rights are incorporated in contracts. They however often serve as a cash flow guarantee for the owner, because it incentivizes the operator to generate higher revenues

of a basis fee (mostly about 3% of NOI) and an incentive fee, which is based on the GOP (mostly about 10%) or is a percentage of the excess cash flow when NOI exceeds the ROI of the investor up to a certain threshold (Rivera, 2011).

Miguel Rivera, senior vice president of HVS and one of the most influential publicists on hotel asset management, for a long time now campaigns for a totally different understanding of management fees because in his opinion, in their present form they “totally miss the mark” (Rivera, 2011, p.1).

His most fundamental criticism is that fees, when based on NOI, just reflect the market performance and not the abilities of the manager. He also states that the incentive fee and the base fee should be based on GOP rather than NOI because “expenses deducted from GOP to reach NOI like insurance and real estate taxes, are mostly outside managements control” (Rivera, 2011, p.2) His idea would be to base the fee on a certain RevPar (Revenue per available room) penetration that depends on the location and age of the property and on a certain GOP penetration that orients itself on the market average and by this offsets possible external downswings. Table 7 lists the things that fall into managements control and those who do not.

After all, management fees should incentivize the management to generate high revenues and not punish them for outside developments that cannot be accounted to them. Furthermore, management compensations should always try to align the interests of owners and managers and by this reduce possible principal-agent problems.

Nonetheless, the management has fiduciary duties and in an ideal world, trust should be a grave incentive to follow your duties.

RevPAR Penetration	GOP Penetration
Owner Driven	Owner Driven
Physical condition (CapEx)	Physical condition (efficiency of mechanical systems, ease of maintenance)
Brand	Efficiency of design and layout
Location	
Physical attributes and amenities (size of rooms, quality of design, presence of a pool or a spa, etc.)	
Management Driven	Management Driven
Quality of management team	Departmental revenue capture
Sales efforts	Employee efficiency
Employee satisfaction	Employee morale and turnover
Service delivery and customer satisfaction	Shrewd purveyance
Yield Management	Cash flow-through
Public relations	

Table 7: RevPar and GOP Penetration (Source: Rivera 2011, p.3)

Obviously, contracts are one of the basic modules for running a successful hotel, avoiding goal conflicts between managers and owners and incentivising the latter to act in the interest of the former. To achieve this, it is quite conceivable to customise the contract to the respective owner-manager set-up and the underlying property.

3 Corporate Specifics

Up to now we know, who is investing in hotels, how they do it and what they can expect regarding returns. What we do not know is what happens after the deal is sealed. Although this thesis concentrates on how investors derive their decision of whether to invest or not, we will now look at what is necessary to secure such an investment.

To do so, insights into accounting regulations are of utmost importance. At the end of the last section we saw that contracts are an important tool for successfully undergoing a hotel investment. This is partly due to the fact that they de-

termine what figures are used to assess the manager's abilities and which will be the basis for their payment. In addition, it might be advisable to gain some expertise, when it comes to the right financing mix for lodging properties and a sound financial planning. If the investors themselves are not willing to attend to this matter, an asset manager will fulfil those tasks. His part and a quick glance at the topics *hotel accounting* and *hotel financing* will be provided in this section of the thesis.

3.1 Hotel Accounting

Apart from looking at financial figures that are derived by certain valuation and due diligence methods, accounting figures are also an essential decision-making basis for hotel investors. Whereas financial figures of hotels do not differ much from those of other investments and are basically all derived from a DCF-method, the hotel and leisure industry has to offer certain particularities, when it comes to accounting.³¹ As far as our group of investors is concerned, those figures matter to them, if they want to invest in an already existing hotel and want to appraise the management or they just built a hotel and need to do some sales estimates to either look for additional investors or find a management company.³² But what we have seen in the previous chapter is that the management company does not have the sole responsibility for accomplishing a certain penetration of key figures. (See tab. 7) However, the owner and the manager have slightly differing interests in some respect. Therefore, an indicator system should strive for an alignment of those interests. This again also falls under the

³¹ For a considerable time, international hotel companies are using the so-called "Uniform System of Accounts for the Lodging Industry" (USALI), which was established in 1962 by the "American Hotel and Motel Association". (Kwansa/Schmidgall, 1999) In this frequently updated compendium all important figures and regulations on behalf of the lodging industry are to be found.

³² To estimate the value of a hotel, a lot of research has been conducted lately on quality controlling, which aims to quantify the service level and by that create standards of comparison.

responsibility of the asset-manager, which will be dealt with in chapter 3.3 *Asset Management*.

A practical application of hotel accounting will be discussed in the empirical part of the thesis. This chapter should provide a selection of the most important figures within hotel accounting and give an insight to whom they matter.

3.1.2 Key Figures

In advance an important differentiation has to be made. On one hand, there are indicators that tell you something about profitability and on the other hand, there is cash flow (Buer, 2007). Performance resp. profitability indicators on the revenue side are amongst others captured in the following list:

$$\text{Occupancy (\%)} = \frac{\text{no. of rooms sold}}{\text{available rooms} \times \text{days open}}$$

$$\text{Average Daily Rate (ADR)} = \frac{\text{net accomodation sales}}{\text{no. rooms sold}}$$

$$\text{Revenue per available Room (RevPar)} = \frac{\text{net accomodation sales}}{\text{available rooms} \times \text{days open}}$$

$$\text{Double Occupancy Factor}^{33} \text{ (DOF)} = \frac{\text{no. of beds sold}}{\text{no. of rooms sold}}$$

³³ The DOF gives you the ratio of rooms occupied with two people to rooms occupied with one person. It only matters in most parts of Europe. In the Anglo-Saxon countries, rates are always „per room“ and not „per person“

The parameters above provide a good insight to the performance of a hotel. Investors with industry knowledge use these figures as a benchmark to appraise a possible investment. For the owner they are a valid source of information on the value of work their manager is doing. Using those figures, one always has to bear in mind that they strongly depend on the location and the reputation of the hotel. For example, a midscale city hotel can expect occupancy of 70% or more. The ADR they obtain, however, strongly depends on the city they are based in. New York offers ADRs around € 200 in the upscale segment, while Vienna's luxury hotels are moving in a range of 120-150 €.

The most meaningful parameter for assessing the performance of a hotel is the RevPar. It depicts, if the management is getting the most out of every single room or not. Furthermore, it is the perfect benchmark to compare a hotel to its closest competitors.

To see, how those figures are incorporated in an income statement, table 8 demonstrates the performance of the London-based "Wellington Hotel" in the year 2005.³⁴

³⁴ Instead of „no. of rooms sold“ they use „occupied rooms“

Number of Rooms:	250			
Occupied Rooms:	67,525			
Days Open:	365			
Occupancy:	74.0%		Amount per	Amount per
Average Rate:	74.05	Percentage	Available	Occupied
RevPAR:	54.79	of Revenue	Room	Room
REVENUE				
Rooms	5,000	52.8 %	20,000	74.05
Food & Beverage	3,900	41.2	15,600	57.76
Telephone	175	1.8	700	2.59
Other Income	400	4.2	1,600	5.92
Total	9,475	100.0	37,900	140.32
DEPARTMENTAL EXPENSES*				
Rooms	1,230	24.6	4,920	18.22
Food & Beverage	2,714	69.6	10,856	40.19
Telephone	112	64.0	448	1.66
Other Expenses	200	50.0	800	2.96
Total	4,256	44.9	17,024	63.03
DEPARTMENTAL INCOME	5,219	55.1	20,876	77.29
UNDISTRIBUTED OPERATING EXPENSES				
Administrative & General	777	8.2	3,108	11.51
Marketing	265	2.8	1,060	3.92
Prop. Operations & Maint.	360	3.8	1,440	5.33
Utilities	237	2.5	948	3.51
Total	1,639	17.3	6,556	24.27
GROSS OPERATING PROFIT (GOP)	3,580	37.8	14,320	53.02
Management Fee	284	3.0	1,136	4.21
GOP AFTER MANAGEMENT FEES	3,296	34.8	13,184	48.81
FIXED EXPENSES				
Property Taxes	199	2.1	796	2.95
Insurance	28	0.3	112	0.41
Incentive Management Fee	330	3.5	1,320	4.89
Reserve for Replacement	284	3.0	1,136	4.21
Total	841	8.9	3,364	12.45
Net Operating Income	2,455	25.9 %	9,820	36.36

Table 8: Performance of Wellington Hotel (Source: HVS London 2006 p.41)

As we can see in the profit and loss statement, the wellington hotel is a fairly big property with **350 available rooms**. In the year 2005, they sold each room approximately 265 times, which gives you the number of **67,525 occupied rooms** (number of rooms sold). By incorporating the number of open days, you get an **Occupancy rate of 74%**.

So, based on the 5 million they obtained with room revenues, they had an **ADR of 74.05** and a **RevPar of 54.79**.

Beginning with the room revenue, they add other sources of income and then deduct departmental expenses and undistributed operating expenses. This leads them to the **GOP**, which is similar to the well-known EBITDA. The GOP is the basis for the management fees. After that, other items, such as taxes and the incentive fee, are deducted.³⁵ Finally you got the **NOI**, which in turn is the basis for a DCF analysis.

3.2 Hotel Financing

By now we already heard a little bit about the different forms of financing a hotel as an investment. We know that private equity companies need an extraordinary high leverage-ratio to undertake their investments and we also know that institutional investors very much rely on a conservative financing strategy. However, the question of the right financing-mix does not end with signing the contract. For one thing, it is not clear, if the chosen capital structure may have an outcome on the subsequent performance. And for another thing, many scholars argue that a target capital structure needs adjustment over time.

Since this thesis concentrates on hotel investors, the focus should be on how they undertake and manage their investments in hotels. How they undertake the investment has already been discussed in chapter 2.2 *Hotels as Investment*. After the transaction, their aim should be to equip the respective subsidiary that owns the hotel “for them” with a capital structure that allows on-going reinvestments, but also exploits possible benefits of an adequate leverage ratio. However, they do not have to face the problems that are inherent to single-asset hotels, owned by a real estate developer or just an individual person that maybe owns solely this one particular property. Investment companies, Funds, HNWI

³⁵ Exactly how it was suggested by Miguel Rivera (see chapter 2.4.2 *Management Contracts*).

and all the others of the mentioned parties are for one thing corporations themselves and for another thing they always have multiple investments. This allows them to shift money from one investment to another or even provide their subsidiaries with money out of their internal funds. Therefore, it can be assumed that they neither worry about things, like, for example, the eminent equity gap in the hotel business, nor about seasonal fluctuations that exacerbate financial planning. But since investment companies and funds are not the only ones owning hotels, there are some considerations that are not negligible. As we will see in the empirical part of the thesis, the search for investors is a significant topic for small companies or individuals that plan to build a hotel. Regardless of whether they manage the hotel or they get an operating company to do it, unless they have less than ten hotels, none of our investor types will even consider them as an investment. So they have to look for loans and interests by small banks, wealthy individuals or small financial institutions.³⁶ Within this search, they have to consider what the right financing mix might be and how they will conduct their financial planning.

It must be noted in advance, that financial planning in the hotel business is not an easy task. Due to uncertainties in demand caused by seasonal variations and customers deciding on very short notice, the industry is faced with highly volatile cash flows. Furthermore, hotels have a vast amount of fixed assets and high overhead costs that are independent of occupancy rates (Schumacher/Wiesinger, 2009). Consequently, the financial crisis did no good to small individual hotels as well as to many other companies. Yet, there are still some peculiarities in the hotel business that are worth mentioning.

This chapter should provide an overview of the most common financing practices used for hotels as a single-asset investment by an individual or a non-finance company from outside the sector. Furthermore, it should seek evidence on which of the existing models on the right financing mix might fit the sector best.

³⁶ In the next section of the thesis, we will then see what the different forms of debt and equity are yielding for the creditors respectively the shareholders

3.2.1 Access to debt

Long-term debt is the most prevalent form in today's hotel business. This is mainly resulting from the by now well-established equity gap that is inherent to the industry. Halling, Stomper, Zechner (2006) list the following possible reasons for this phenomenon.

- High overheads of issuing equity
- Will be traded at high prices because of foreseeable information asymmetries
- No existing secondary market for shares
- Sufficient information and transparency cannot be guaranteed

Those factors have led to a development, which produced solely negative equity ratios up to -20% for a long time. It was not until the introduction of Basel II that hotels started worrying about cleaning up their balance sheet. After that, equity ratios began to get back to positive, but still most hotels are highly overleveraged. The general effects of this will be discussed a little later. However, it should be noted that those extremely high leverage ratios also had an effect on the accessibility of debt. Since Basel II, low equity ratios increase the costs of borrowing for companies (Schumacher/Wiesinger, 2009). Therefore, it is no longer advisable for hotel companies to just rely on the debt market.

Whatever the circumstances are, debt will always play a role in hotel financing. Consequently, we should look at the most common forms of debt used in the sector. Most often, hotel projects are financed with long-term debt. Banks almost always provide these loans, but also insurances, savings and loan associations and HNWLs are a possibility as creditors. Due to the highly volatile cash flows, however, these creditors insist on securities. If hotel companies have a sound financial standing, they can also take up junior debt or even issue bonds. The latter is an actual fact just possible for the big chains.

3.2.2 Access to Equity

As we know by now, equity is out of reach for many hotel companies. Due to Basel II though, they forced to increase their equity ratio. So, what are the most common practices for hotel companies to raise equity? In case of a publicly listed company, this question does not arise because they naturally have access to equity through the stock market. But since the majority of hotel companies are not listed, they have to look for alternative ways. Before we look at them, it should be noted that equity is only offered to companies in two points of time: During the formation or in form of a capital increase. During the formation, most of the equity comes from silent partnerships. Besides, those partners are also the ones providing the capital for subsequent capital increases. There are essentially two ways, how they can take a share of the company. Either they provide the classic form of equity, which guarantees them no voting rights and is mostly set up as a long-term investment or they offer a form of mezzanine-capital.³⁷ This became very popular for a financing in later development stages because it's often combined with "equity kickers". For instance, investors can sell their shares at a premium or they are granted an interest roll-up. But for mezzanine-capital to be accounted as equity, it has to fulfil certain requirements (Schumacher/Wiesinger, 2009).

- It has to be junior to all existing debt
- It has to have duration of at least 5 years
- It is liable for the existing debt

If the provided capital complies with these premises, it can be a valuable and incentivizing source of capital for the hotel management.

Basel II definitely re-shuffled the cards within hotel financing. Negative equity-ratios now belong to the past. But because of the capital intense nature of most touristic ventures there still will be a massive debt-overhang in the majority of

³⁷ E.g. Convertible bonds, participatory certificates, warrant bonds, participation bond, etc.

new projects. The debt-to-equity-ratio though will be given more thought in the future.

3.2.3 Capital Structure

As already pointed out, this section concentrates on the right financing mix for individual hotels, which are not part of a cross-industry portfolio. So the concerns of this very group of people regarding their capital structures are comparable amongst them but also with those of SMEs in other branches.

Literature provides us with various models to explain the capital structure of companies. Based on the irrelevance theorem of Modigliani and Miller (1958), two somehow opposing schools of thought have developed in the last century. The pecking order theory by Myers and Majluf (1984), claiming that decisions regarding capital structure are governed by the availability of a certain kind of capital and its ranking within the pecking order and the static trade-off theory, which suggest to always outweigh the benefits and costs related to debt and thereby reaching an optimal leverage ratio. However, the mounting speed of market mutations as well as a wide spectrum of studies led to the belief, that it's not enough to just once set the optimal capital structure. Most scholars nowadays believe, that the target capital structure has to be adjusted over time because of the interferences just mentioned.

Swinnen, Voordeckers and Vademale (2005) analysed the financing behaviour of SMEs in large-scale model, trying to detect, whether their behaviour could be explained by the pecking order theory, the static trade-off theory or the target adjustment theory. However, a not entirely groundless suspicion they had from the outset was that most SMEs lack the knowledge to comprehend their optimal capital structure and rather use the industry average for their financing mix. Nonetheless, they were able to derive some significant results. They could demonstrate that the pecking order theory might be the best way to explain the financing behaviour of SMEs. Supposedly SMEs "...decrease or increase their fi-

nancial debt in correspondence to the availability of internal funds” (Swin-
nen/Voordeckers/Vademale, 2005, p.1).

To see, if the findings Swinnen, Voordeckers and Vademale are also applicable
to hotels, a more industry specific study should be presented. Phillips and
Sipahioglu (2004) tested the following hypotheses with their sample of 43 ho-
tel companies in the UK:

“There is no significant relationship between the level of debt found in the capi-
tal structure of UK quoted organisations which possess an interest in owning
and managing hotels and their financial performance” (Phillips/Sipahioglu,
2004, p.37).

To test this hypothesis, they ran a regression to find a relationship between

- a) Debt to asset ratio (total debt/total assets) &
Gearing ratio (total debt/shareholders' equity) } *Independent*
- and*
- b) Return on Assets (Net income available to shareholders/total assets) &
Return on Equity (Net income available to shareholders/shs' equity) } *De-
pendent*

Their findings supported the Modigliani-Miller proposition 1, because there was
no evidence, that the leverage ratio has an effect on the value of the company.³⁸
According to them, their findings may be consistent with Marsh (1982), who
stated that firms with a lot of fixed assets (like hotels) profit from issuing debt.

³⁸ They even found out, that there was no positive relation between the level of debt and the val-
ue of the company.

What they could claim for sure, however, was that their results clearly rejected Myer's and Majluf's theory (1984) that there is a positive relationship between long-term debt and firm performance.

As an addendum to the previous studies, a paper of Giroud, Müller, Stomper and Westerkamp (2012) should be mentioned. They looked at Austrian ski-hotels undergoing a debt restructuring.³⁹ One of their findings was that in most of the cases, reducing the debt overhang improved performance. This is also consistent with the rejection of Myers and Majluf theory (1984) by Phillips and Sipahioglu (2004) that there is a positive relationship between debt and performance. The restructurings did though not only affect performance. The authors also noted increasing debt forgiveness by the creditors, if the hotels got rid of some part of their liabilities.

What we can see is that there is maybe no clear-cut answer on how to explain a good capital structure. What we yet saw in all of the mentioned studies is that a debt overhang can be a profitable tool for companies, but as far as SMEs are concerned, a healthy equity ratio will get you a more well-meaning group of creditors and may also safeguard you through times of distress.

3.3 Hotel Asset-Management

The necessity of establishing an asset manager has become evident with the separation of the property owner and the property manager. What's more, the owner can only regulate the relationship with a manager by means of contracts up to a certain point. But since it is impossible for the owner to always be on the site and overlook the manager's operations, he needs a fiduciary to fulfil those tasks. Figure 15 depicts the integration of the asset manager's role.

³⁹ Their study „Snow and Leverage“ (2012) mainly focused on a possible relationship between the level of snow in the respective area of a hotel in past years and financial distress in the subsequent year. They concluded that if hotels got into distress although there was a lot of snow in the year before, it is likely that the management is blamable for it.

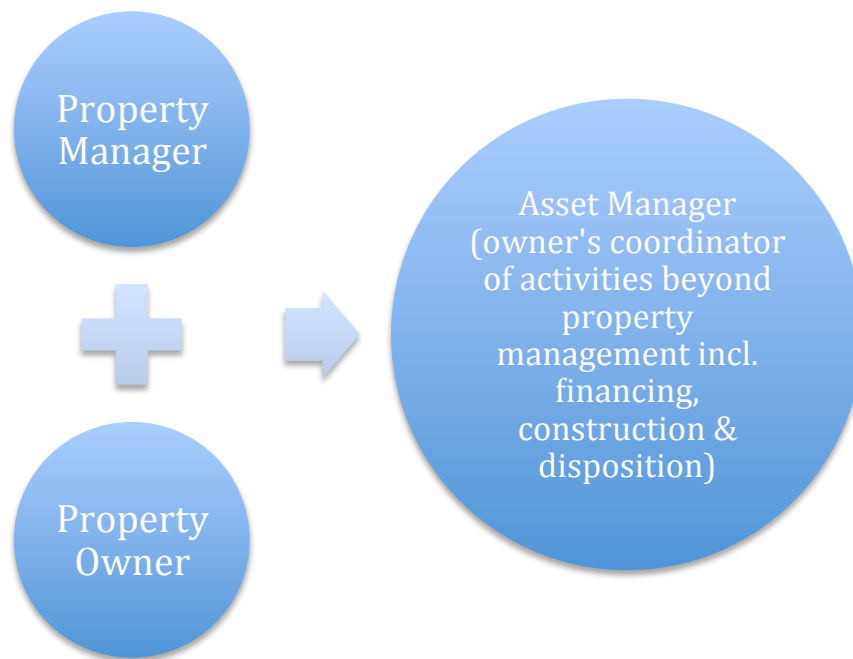


Figure 14: Role of the Asset-Manager (Source: Author's illustration)

Asset management is also a valid way to reduce possible agency costs, information asymmetries and misspending. Interests of the owner are classically not the same as those of the manager. It can be said, that most investors have short-term interests and from the outset have an exit strategy, while hotel managers strive for long-lasting contracts. The owner's focus tends to be more on the revenue side, managers want cost control. When business is going good, on the other hand, hoteliers, like all other managers, have a disposition to invest in unprofitable projects. (Beals, 2008) An asset-manager's objective should be to reduce these risks in the interest of his client, namely the owner.

The following section aims to give an insight into the role of a hotel-asset manager and describes his most important tasks before and during the investment.

3.3.1 The Asset-Manager

The asset-manager is a personalized interface between the investors and the respective entities that manage his investments. When he is not busy with an on-site inspection at one of the current projects, his tasks also include consultations with regard to possible future investments. But this will be discussed in the next chapter 3.3.2 *Risk-Management*.

Denton (2003) divides the tasks of the asset manager into two clear-cut remits: Managing the investment for his client and overseeing the operations and the physical asset. What particular tasks are included in those two areas is demonstrated in the following list.

Managing the investment	Oversight of operations
▪ Advise ownership as to optimum investment ▪ Monitor the investment community ▪ Select and oversee operators, franchise affiliations ▪ Negotiate and administer contracts ▪ Approve / monitor capital expenditures	▪ Monitor ongoing financial performance ▪ Monitor the competitive market ▪ Monitor the asset ▪ Support and review the budgeting processes ▪ Advise ownership as to management issues

Table 9: The Hotel Asset Manager's role and responsibilities (Source: Denton 2003, p.16)

As one can see, asset managers need profound industry knowledge within financial aspects as well as in operations. He should keep the manager at a short lease, but also motivate him to enhance performance. As far as his encounter with the owner is concerned, he should constantly report the current situation, if necessary recommend an exit and, subsequently, look out for new assets that might fit the risk-profile of his client.

3.3.2 Risk-Management

Although risk-management is not always the task of the asset manager, it will be discussed within this section, because, assuming that investors hold multiple investments at the same time, they will need an additional manager to do it.

As we will not discuss the various tools to calculate hotel risk, such as *duration* and others, because it would exceed the scope of this work and quite frankly the majority of hotel investors does not worry about duration formulas and sensitivity analysis, it can be helpful for understanding the complex matter of hotel investing to look at what could be considered, if resources were sufficient.

Stephen Rushmore, president and founder of HVS describes risk-management in the hotel industry as the process of “...evaluating a hotel’s risk exposure and developing strategies for mitigating those” (Rushmore, 2010, p.18).

So, at which points in time are you exposed to risks? As an investor there is a timely classification of risks: The development risk, the operating risk and the exit risk (Younes/Kett, 2008). As a manager, your hot spots are the property risks, premises liability, products liability and workers compensation (Rushmore, 2010). Within the scope of the investor, these considerations would evidently fall under operating risks.

We already discussed three ways for an investor to mitigate possible risks, namely a good contract design, a solid capital structure and the appointment of an asset manager. Yet the development risk, the operating risk as well as the exit risk are merely controllable and impossible to eliminate completely. Younes and Kett (2008) suggest the following estimates to incorporate those risks in your financial planning.

The development risk is reflected by the total costs of development. Within the upscale sector it is particularly high. In the development stage, the investor (if he is already involved) has to rely on a huge number of companies, namely the developer, the architect, the building contractor etc. etc. In this time period, the economic risks of all those entities endanger the completion of the project.

The operating risk strongly depends on what kind of investment you underwent. If you are just a shareholder, a high operating risk might endanger your investment, but in turn it guarantees you high dividends, no matter, if you are a creditor or you provided equity. In the presence of a management contract, the investor bears almost the full risk. Furthermore, the total value of the investment will suffer from an increasing cost of capital.

The exit risk is mainly reflected by the decreasing value of the property and possible difficulties selling it for a good price. In other words the terminal capitalisation rate, which is also affected by the cost of capital, is often unforeseeable and, therefore, a potential risk, especially for investors with long-term horizons.

Investors should regard all those risks and also gain expertise in all the other aforementioned corporate specifics of the hotel business, when they want to undergo a prolific investment and also secure it for the holding period. The empirical part will prove that the majority of investors see *knowledge of the industry* as vital. If you have access to this knowledge you can much more easily assess the viability of a project. Which documents will provide you the necessary information will be discussed in the next section.

4 Evaluation Tools

The questions we can answer up to know are the following:

- In what way has the hotel business developed over time?
- How is today's hotel investment market constituted?
- What are the main players in the market?
- How do they undertake their investment?
- How do they manage their investment?
- What are the corporate specifics of the hotel business?
- What are expectable returns in the hotel investment market?

What we do not know is how the decision-makers gain the necessary information to derive their investment decision. This chapter should give an insight into the most common used evaluation tool, the business plan and the feasibility study. The emphasis will lie on the feasibility study, since the empirical part will focus on decisions derived by the help of feasibility studies.

4.1 Business Plans

Basically, all pre-start-up-planning tools have two different intensions. They, of course, serve as a source of information about a planned or on-going business venture. In addition to that, their mere existence, albeit the decision often was already made, serves to legitimize investment decisions within the board of executives, to legitimize a request for a loan or as justification for a new project at a shareholder meeting. Kirsch, Goldfarb and Gera (2008) denominate those as features as *communicative* on one hand and *ceremonial* on the other hand. However, the first question should be, if business planning increases the chance

of successfully funding a venture. Hopp (2011) did an observation of 935 questionnaires, completed by nascent entrepreneurs in the USA as part of a large survey. His aim was to get an answer to these very questions. Does business planning enhance your chances as an entrepreneur? What purposes does it exactly serve? What are the most crucial parts within a business plan?

Whilst his main results were that making financial projections and constantly adapting the business plan strongly increases your chances that your venture will be successful, he also tracked a relationship between business planning and acquiring outside financing, which strongly bears upon the results of this work.

Since business planning is much easier and much more common nowadays, Hopp believes, that the signal of being able to write a business plan is much weaker than it used to be. Therefore, he derived the following hypothesis.

“The ceremonial purpose of business plans for acquiring outside financing negatively moderates the value of business planning” (Hopp, 2011, p.11).

His results confirmed this hypothesis, since business plans, which clearly had just a ceremonial purpose, meaning that they e. g. did not contain financial projections, were less successful in acquiring outside financing than the ones that complied this feature. He argues in favour of a clear-cut decision, whether a business plan is just a learning tool for the entrepreneur itself, which indeed can be very helpful or it should be an evaluation basis for third parties. The second one of course is associated with somewhat greater expense.

We will see in the following chapters that these planning tools are not just a form that has to be completed and getting outside financing is no longer a problem. The structure, the content and the strategic focus are all aspects that need consideration.

4.2 Feasibility Studies

Before we talk about the relevance, stakeholders and features of a feasibility study, we have to make a differentiation between feasibility studies and business plans. First and foremost, there is a timely difference. Feasibility studies are always conducted before the business plan. It is so to say the basic requirement for setting up a business plan. A feasibility study proves that there after all is a viable business opportunity. Secondly, within the feasibility study not much space is designated for marketing strategies, expansion possibilities or business tactics. Since setting up a business plan is much more time consuming and costly, the feasibility study should provide an analysis of the market, an assessment of the proposed financial strategy and some projections about possible returns. Based on this, an answer should be given to the question, if setting up a business plan is worth the time.

4.2.1 Involved Parties

Especially in tourism, feasibility studies are very common. A reason for this might be that touristic projects, such as hotels contain large investment sums. So developers really want to reach clarification before they put up a building. As we will see in the section that handles the stakeholders of feasibility analysis and also in the empirical part the context, in which a feasibility study is necessary, is always the same. The parties involved might be different. Figure 17 depicts the process in question. The three columns represent the three main parties: The client, the one conducting the study and the one reading it. Who they can be will be discussed in the next chapter. But what we can see by now is that a third party, which is neutral, in the figure represented by the “Expert” is unconditionally necessary for a reliable recommendation.



Figure 16: Involved Parties (Source: Author's illustration)

Since the given necessity of those experts, it might be advisable to look at who they are. In an international context you find a huge number of companies that call themselves tourism and hospitality consultants. Albeit the vast number of these companies, there are just a few that are noteworthy, when it comes to setting up international standards and contributing to the academic exploitation of the matter. The two maybe most significant are “Jones Lang LaSalle” and “HVS”. Jones Lang LaSalle, which by numbers is the global leader in real estate consulting, presented a revenue of \$ bn. 2.9 in 2010. Their operations, of course, also include other things than conducting feasibility studies. HVS has a much narrower focus on the hospitality industry. Their key feature is their dedication to science. Being the biggest partner of the “Cornell School of Hotel Administration”, they are omnipresent within the scientific community of the field. HVS as well as Jones Lang LaSalle appear as publishers of countless papers and studies on hospitality. As it can be seen by the number of citations in this thesis that

cite publications by one of those two, they are one of the key sources for information, when you want to do research on matters of hospitality and real estate.

As we now know, who conducts the study, a closer look on who commissioned it and who the respective readership might be seems advisable. For this, some exemplary scenarios, in which a feasibility study might be requested, are listed.

1. A property developer plans a new hotel and wants to attract investors.
2. A property developer plans a new hotel and wants to get a loan.
3. A property developer plans a new hotel and needs an architect.

4. An Investor, who wants to get engaged, needs authority of his board.
5. An Investor, who is engaged in the project, wants to attract other investors.
6. An Investor, who is engaged in the project, wants to find a manager.

Within this thesis, emphasis will lie on the scenarios in which the recipient is either an investor or a bank.

4.2.2) Features

Since the main question in the empirical part will be how the various recipients read the study, it may be important to look at the most common features incorporated in feasibility studies. The fundamental structure of every feasibility study is the following:

- Executive Summary
- Matter of Study
- Location Analysis
- Market Analysis
- Corporate Concept
- Investment Concept
- Efficiency Analysis
 - *Sales Estimates*
 - *Expense Estimates*
 - *GOP*
 - *Predicted Income Statement (10 yrs.)*
 - *Funding*
 - *Depreciation*
 - *Cash-Flow*
 - *ROI*
 - *ROE*
- Final Recommendation

Which of these features might be the most important for what kind of recipient, will be discussed within the empirical part. Discussing all the distinct characteristics of feasibility studies as well as the relevance of every feature would go beyond the scope of this work.

4.3 Financial Feasibility

Assessing the financial feasibility of a project always implies making projections about possible prospective scenarios. Therefore, the main question is how to derive those figures. As in any other valuation, the quality of the forecast strongly depends on the underlying information.

This chapter will discuss the valuation approach that is used in feasibility studies, which in most cases is an absolute valuation, predominantly a discounted cash-flow analysis.

4.3.1 The Discounted Cash-Flow Analysis

The DCF Analysis is by far the most common technique in feasibility studies to value coming projects. By means of the DCF, the most important figures for investors can be computed. Whereas the calculation of the free cash flow is common ($\text{NOI} + \text{Depreciation} - \Delta \text{NWC}$), the adequate discount rate is a controversial subject.

As a matter of principle, the selection of the discount rate is based on the considerations, what an alternative investment might yield. In many cases, a risk-free rate plus a certain risk-premium is used. But this again raises the question, what an adequate risk-premium might be. A decent number of ways to estimate costs of capital exist. So, if you assume that the capital structure will be somewhat constant over time, WACC might most likely be the best estimate. Whereas the costs of debt are computed pretty straight forward, the ways to derive a good estimate for the costs of equity, are more complex. If the company is listed, the dividend-growth-model might be the best way. With “P” being the current stock price, “D” the expected dividend for next year, “g” the growth rate and “r” the constant cost of equity for the respective company.

$$P = \frac{D_1}{r - g}$$

Converting the term you get:

$$r(\text{cost of equity}) = \frac{D_1}{P} + g$$

An alternative approach for computing your costs of equity would be the CAPM. By looking at comparable projects, you can derive an average asset β (β_A). After that you can estimate an equity β (β_E).

$$\beta_E = \beta_A + (\beta_A - \beta_D) \frac{D}{E}$$

Which leads you to an estimate for your costs of equity (r_E).

$$r_E = \text{risk free rate} + \beta_E * \text{market risk premium.}$$

Either way, WACC has a lot of disadvantages. But if you can assume a constant debt-ratio, it will serve you well as a discount factor for your DCF-Analysis. Then, finalizing the computation, you get your WACC (with T_c being the corporate tax) by relating the costs of debt and the costs of equity to their respective proportions of the overall firm value (V).

$$WACC = r_D(1 - T_c) \frac{D}{V} + r_E \frac{E}{V}$$

As you can see, computing the discount factor is prone to error in all of its stages. But the final formula to derive your firm value is still due. Moreover, by means of the WACC, you can discount your estimated future cash flows and the estimated terminal rate to derive this value (present value of the enterprise).

$$PV = \frac{FCF_1}{(1 + WACC)^1} + \frac{FCF_2}{(1 + WACC)^2} + \dots + \frac{FCF_T}{(1 + WACC)^T} + \frac{PV_T}{(1 + WACC)^T}$$

Alternative valuation approaches exist, however only in literature. Attempts to try relative valuation methods failed because of the non-comparability of touristic ventures. And speaking of valuing coming projects, market risks and business risks were just not assessable. There is no doubt that hotel valuation will be of interest for further research and that financial institution will be the driving force behind this development.

4.3.2 The Value of a Hotel

In the accounting part we discussed the most important financial figures within hotels. As seen in the exemplary income statement (see tab. 8), those figures are crucial for assessing the true value of a hotel. When assessing the value of a hotel that is still in the pipeline, the exact same figures are incorporated, only this time based on projections.⁴¹ As we will see in the empirical part, there is no consistent approach on how to derive those figures. What's more, to make valid projections about a planned hotel project, a screening of already existing comparable hotels is vital. Furthermore, a lot of information is gathered through scouring databases for fitting benchmark figures. With the help of those figures it should be possible to answer the following questions:

1. What is the amount to be invested?
2. What will the running expenses be?
3. How much income will be generated?
4. What returns can be offered to investors?

⁴¹ Since the hotel business is, as we know not very easy to project, a lot of feasibility studies contain three alternative financial scenarios. A realistic scenario, an optimistic scenario and a pessimistic scenario. This precaution should account for possible external factors.

In his seminal paper on real estate development, Wayne Etter (1988) puts it in a nutshell:

“If the project can generate adequate net operating income to support sufficient debt to finance the property and provide a satisfactory cash-return to the developer/investor, the project is financially feasible” (Etter, 1988, p.45).

How this information is incorporated in a feasibility study will be shown in the empirical part. One factor that already has been identified as being crucial for making valid projections is a necessary knowledge of the industry. Experience with comparable projects as well as insights into industry specifics make this up to a certain point a matter of instinct.

5 Empirical Part

Until now we have talked about who is investing in hotels, how they conduct their investments and what returns they might expect. We also talked about the evaluation tools necessary for assessing the viability of such an investment. But since different investors types look for different aspects within hotel investments, there can be no clear-cut answer on what type of information is the most relevant within the investment decision.

For the empirical part of this thesis, interviews with different types of hotel investors were conducted. The aim was to detect possible patterns amongst similar investor types, in respect of resembling decision-making heuristics.

Whereas in the previous section we looked at the most common tools to process information to the decision maker: This section will focus on the decision making process itself.

5.1 Decision Making

To clarify that question, how one derives a decision, the next part of the thesis will focus on the decision-making process and its discussion within literature. To find out, if there are any widely used heuristics or shortcuts amongst investors, a brief introduction into decision-making theory should be provided. Subsequently, the group of venture capitalists and their decision-making patterns will be presented to finally get to the hotel investment market and see how people there derive their decisions.

By providing business planning documents to possible investors, entrepreneurs actively control what information is passed on and what is emphasised. In our case though, the one looking for funding is not the one, who is writing the fea-

sibility study. A third party, the consultant comes into play. His reputation strongly depends upon whether his recommendations are objective or not. So, although the entrepreneur is the one paying him, a positive valuation is not always the case. By a high quality of his work, he ensures that investors will trust his recommendations. This again guarantees a certain demand for his analyses.

By all means, information asymmetries are an issue, for the reason alone that three different parties are involved. But in contrast to Akerlof's lemons, the entrepreneur will not embezzle or forge information in a way a car seller might do, because his future returns also depend on the success of the venture.

However, there is a strong dispute about whether business planning documents are of any value at all for investors within their decision making process. Kirsch (2009) believes that providing business plans is just a costly signal by the entrepreneur that he understood certain norms about length, form and organization of the very document. Besides, in his opinion, this act is of pure ceremonial value and most investors will gain critical information through other channels.

To confirm this point, he analysed 1063 funding requests that were passed on to a VC company between 1999 and 2002 in terms of content, form and way of submission. The results were that at least this particular VC neither cared about the presence, nor the content of the funding requests. Cues that are sought by VCs cannot be easily incorporated in business plans. This is also confirmed by a study of Mason and Stark (2004). The authors gave three funding requests to a banker, a manager of a VC company and a business angel. While the participants read the requests, they were asked to say anything that came to their minds. The recordings were analysed and got coded in so-called "thought units". The frequency of those thought units is depicted in table 10.

<i>Funding Criterion</i>	<i>% of Thought Units (averaged by type of funder)</i>		
	<i>Banker (n = 3)</i>	<i>Venture Capital Fund Manager (n = 3)</i>	<i>Business Angel (n = 4)</i>
Entrepreneur	9.0	12.0	16.8
Strategy	5.7	11.0	2.0
Operations	4.3	4.7	3.8
Product	2.7	6.7	5.5
Market	12.3	22.0	19.8
Finance	55.3	21.3	22.5
Investor Fit	0	1.0	13.5
Business Plan	2.7	6.7	4.8
Other	8.0	14.7	11.8
Total	100	100	100

Notes: Each respondent reviewed three funding opportunities. Percentages do not add up to 100 because of rounding.

Table 10: Frequency of Thought Units (Source: Mason/Stark 2004, p.239)

What we can see is that the banker strongly emphasised the financial part of the request and did not attach much importance to details on the market or the entrepreneur himself. In contrast, the VC manager and above all the business angel considered the entrepreneur and his abilities as crucial. The essence is that information, which is crucial for VCs and business angles, are not part of a business plan. Since they would also manage the respective company, they rely on their intuition regarding the capabilities of the entrepreneur.

In a very similar approach to the one used in the empirical part of this thesis, Newell and Seabrook (2005) conducted a study to identify those factors. Alongside, five main factors, namely “Financial”, “Location”, “Economic”, “Diversification” and “Relationships”, their respondents also had to weigh 25 sub-factors regarding their importance to their decision of whether to invest in a hotel or not. The subject group consisted of 15 people, 47% of them being hotel investors and 53% hotel owners or operators.

Factors	Factor weight (%)	Sub-factors	Sub-factor weight (%)	Sub-factor rank
Financial	37.0	Forecast ROI (five years)	12.5	1
		Gross operating profit	6.4	3
		Historical rates of return	6.2	6
		RevPAR as a return measure	5.1	7
		Unsystematic risk	3.5	11
		Economies of scale advantages	3.2	13
Location	29.9	Site attributes	7.4	2
		Current hotel supply	6.4	4
		Volatility of demand	6.3	5
		Number of domestic visitors	4.5	9
		Number of international visitors	2.8	15
		Age of target hotel	2.6	17
Economic	14.5	Business spending patterns	3.5	12
		Interest rates	2.7	16
		Extent market is emerging	2.3	18
		Tourist spending patterns	2.2	19
		Extent market is mature	2.1	21
		Employment growth (office)	1.8	24
Diversification	12.0	Segment diversification	4.8	8
		Geographic diversification	3.0	14
		Link to target property	2.2	20
		Brand diversification	2.0	23
Relationships	6.6	Alignment with stakeholders	3.5	10
		Independent asset management	2.1	22
		Regulatory influence	0.9	25
Total	100		100	

Table 11: Weightings for Hotel Investment Decision Making (Source: Newell/ Seabrook 2005, p. 287)

In the survey we will see, if these results are representative for all investor types. As the five most important sub-factors (by order of decreasing preference), Newell and Seabrook identify

1. Forecast ROI
2. Site attributes
3. GOP
4. Current hotel supply
5. Volatility of demand.

This convincing list will be an important benchmark in the empirical analysis of investors' decisions they derived after reading a feasibility studies. These factors are all covered within the feasibility studies we are going to look at. The more interesting question will be, if the subject group questioned for this thesis will extrapolate the same ranking.

5.2 Study Design

The major purpose of the study was getting answers to the following questions, in respect to their validity in the Austrian hotel investment market.

Question 1: “Why people invest in hotels / are there certain success factors”

Question 2: “What type of information delivering which kind of message is crucial for what type of decision maker?”

Both questions were tested with a different empirical method which each requires a certain kind of analysis. The results of the analyses then should lead to answers to the respective question but also to a general conclusion.

5.2.1 Hypothesis

To see, if the results of this study can offer a certain degree of validity, several hypotheses that were derived from the theoretical part of this thesis will be tested now.

First and foremost, the importance of feasibility studies within the decision-making process should be assessed. According to Kirsch, Goldfarb and Gera (2008) and Kirsch (2009), business planning documents serve as a ceremonial cue.

H₁: Business Plans and Feasibility Studies just serve as a ceremonial cue.

However, literature suggests that at least the financial forecast is vital for all investor types. (See chapter 3.2 Hotel Financing)

H₂: To attract outside capital, an extensive forecast of your financial figures is necessary.

Furthermore, the theoretical part touched the issue of owning a hotel as a single-asset. In chapter 2.3, it was stated that because of certain factors you have to own a certain number of hotels to generate adequate profit.

H₃: You can only generate sufficient returns with owning at least two or three hotels

The study of Mason and Stark (2004), which was cited in chapter 5, proved that within the different decision-makers, bankers especially emphasised the financial figures in the planning documents, which leads to the next hypothesis.

H₄: Within the feasibility study, bankers particularly look at the financial figures.

As we saw a lot of investor types stress the ability of the entrepreneur as crucial for their decision. To see if the same applies for hotel investments H₅ will be tested.

H₅ The organisational concept (management team) is a crucial feature within the decision-making.

5.2.2 Sample

To present the problem in its entirety, three types of investors that, following the discussed theory were expected to differ the most in their opinions, were identified. The sample consisted of actors only active in the Austrian market. By this it also can be seen, if the main theses of literature also apply to the Austrian market.

- Investor Type 1: The Banker
- Investor Type 2: The private Investor (HNWI)
- Investor Type 3: The institutional Investor

The interviews with two proponents of every type were conducted in May and June 2012. A detailed list of the interviews is illustrated below.

Interview 1	Date: 05/08/2012	Duration: 09:10	Private Investor
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The first interview was conducted with a private investor, who also develops hotels and other real estate projects and consults other investors regarding touristic ventures.

Interview 2	Date: 05/18/2012	Duration: 13:43	Private Investor
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The second interviewee was also a private investor that consults other investors on the side. Furthermore, he owns a hotel management company and has numerous investments in the Austrian agribusiness.

Interview 3	Date: 05/22/2012	Duration: 32:20	Banker
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Interviewee three is the CEO of *Bank X*, an Austrian bank that solely finances touristic ventures. The institute has total assets worth € 1.5 billion and the average value of a loan is € 1.5 million.

Interview 4	Date: 05/23/2012	Duration: 13:40	Banker
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In this case, the interviewee is the team leader of “Team Tourism” of *Bank Y*. His division looks after touristic projects with an investment volume between € 5 million an € 15 million.

Interview 5	Date: 05/25/2012	Duration: 17:10	Inst. Investor
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The fifth interview was held with the Head of „Department for Hotel-Development“ of *Company X* which is an international construction company based in Austria. They develop and finance hotel projects, which they afterwards sell to other institutional investors like insurances or funds.

Interview 6	Date: 06/06/2012	Duration: 23:20	Inst. Investor
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The last interviewee is the CEO of *Fund X*, a fund that solely invests in touristic ventures. Besides some hotels they really own, they usually participate with junior mezzanine-capital. Their equity totals € 50 million.

5.3 Methodology

The inquiry basically consisted of two parts, each answering one of the research questions mentioned before. To answer the first question,

“Why people invest in hotels / are there certain success factors”,

an open dialogue was held that broadly revolved around the following questions.⁴² Depending on the respective interviewee, the questions were adapted according to his profession.

1. How would you describe your risk profile?
2. Since when are you investing in hotels?
3. How many lodging properties do you have in your portfolio?
4. What other real estate investments do you have?
5. What other investments apart from real estate do you have?
6. Why do you consider hotels an attractive investment?
7. What is your preferred type of hotels and why?
8. What is your preferred type of operator and why?
9. What is your preferred type of contract and why?
10. Do hotels have a particular task in your portfolio?
11. What holding-period do you intend?

The transcripts of the interviews were analysed, using basic content analysis techniques⁴³. The aim was to identify similar patterns within the answers and thereby derive general categories that may help to answer the initial research question. (see chapter 5.6 Content Analysis)

The second part of the study was of a more quantitative matter. To answer question 2,

“What type of information delivering which kind of message is crucial for what type of decision maker?”,

the respondents were asked to rank seven factors and within each factor, three corresponding sub factors as shown in table 13. The factors were derived from the basic structure of a feasibility study.

⁴² Transcripts of the six interviews can be found in the appendix sectionX

⁴³ Based on P.Mayrings „Qualitative Inhaltsanalyse. Grundlagen und Techniken“ (2007)

The results of the survey were used to test several hypotheses that were derived from the theoretical part of the thesis. (see chapter 5.7 Results of the factor ranking)

Factors	Rank	Sub factors	Rank
Location- & Market-Analysis		<i>Region, Town, Location</i>	
		<i>Supply and Demand</i>	
		<i>Competitive Situation</i>	
Corporate Concept		<i>Product Concept</i>	
		<i>Sales- & Marketing-Concept</i>	
		<i>Organisational Concept</i>	
Investment Concept			
Efficiency Analysis		<i>Sales- & Expense Estimates</i>	
☐ Management Contract ☐ Lease Contract		<i>GOP</i>	
		<i>Adjusted NOI</i>	
		<i>Rent Income</i>	
Predicted Income Statement		<i>RevPar</i>	
		<i>ADR</i>	
		<i>Occupancy</i>	
Funding			
Performance Indicators		<i>Cash-Flow</i>	
		<i>ROI</i>	
		<i>ROE</i>	

Table 12: Factor Ranking (Source: Author's own illustration)

5.3.1 Content Analysis

Because of the very open nature of the first part of the study (open dialogue), numerous topics were addressed, including topics that were not closely linked to the research question and, therefore, will not be discussed now.

To gain a basis for comparison, the meaningful topics of the interviews were grouped together under 5 distinctive categories. The categories that were emphasised most strongly were the following.

1. The feasibility study as a decision-making basis
2. General appraisal of the hotel investment market
3. Choice of operator and contract design
4. Hotel investments in portfolios
5. Key trends / possible secrets of success

The views and opinions of the interviewees with reference to those categories are presented in the following.

1. The feasibility study as a decision-making basis

Most interviewees claimed that they use the feasibility study as a support within their decision-making but not as their single source of information. *Private Investor 1* complained about needing a feasibility study to get a loan. He also stated that he sees a trend in depicting the investment costs very low for this reason. In contrast to that, *Institutional Investor 1* said that they actually order two studies. One to evaluate the location and another one at the time the concept is finished.

2. General appraisal of the hotel investment market

All interviewees stated that without decent know-how or a special emotional bond to a certain region or property they would strongly advise not to invest in hotels. Especially anything differing from large urban hotels managed by professional operators can be hardly assessed in terms of risk they said. *Private Investor 1* said that also a strong affection to tourism itself is necessary to successfully invest in hotels. People, who lack that interest, would be much better off with other real estate types. According to *Banker 1*, there is no reason at all to invest in hotels in terms of accretion of wealth. *Institutional Investor 1* noted that the only party that would really benefit from hotel investments are large institutions, like, for instance, insurances or funds investing in urban locations because of the longevity of such an investment.

3. Choice of operator and contract design

Within this topic, there was a general understanding that urban locations should be managed by professional operators (not necessarily chains) and holiday hotels would be better off with the owner (in the best case a family) also managing the enterprise. Holiday hotels, however, were not recommended for outside investors at all, because they solely operate with lease contracts, which do not reflect the actual performance of the hotel within the return for the investor. *Private Investor 2* said that with the appropriate know-how you could get better returns with management contracts. However, those were strongly criticised by *Banker 1*, because in his opinion they did not offer enough securities for the investor and also would not be much of an incentive for the operator.

4. Hotel investments in portfolios

A portfolio only consisting of lodging properties was found to be possible, but would in fact require a lot of explanation for small investors. *Banker 1*

and *Institutional Investor 1* said that with a strong diversification amongst locations and categories, one could achieve a certain kind of yield security, although with very small yields, which then again only attracts very risk-averse investors like insurances.

5. Key trends / possible secrets of success

All the respondents mentioned two overall trends respectively best-practice models. First of all, they detected a potential for new outside financing models for owner-managed hotels. *Banker 1*, for example, said, that more and more participations in a limited partnership were undergone. The key to this, he believes, is a combination of a decent return and special fringe benefits for the investor, such as “life estate” or a “right of residence”.

Within investments with management contracts, they all mentioned the necessity for more commitment on behalf of the management company. All of the investors made remarkable experiences, if the management company also takes a share in the property. In their belief, this enhances the performance of the operator in multiple ways.

As a feature of the Austrian market, there was a common understanding amongst the respondents that because of its saturation, it became a displacement market in every respect. There are no unknown regions or towns that can be developed, so you have to differentiate yourself within the scopes of concept, pricing and customised offers.

5.3.2 Results of the Factor-Ranking

The results of the factor ranking depict itself as the following.

	Location- & Market- Analysis	Corporate Concept	Investment Concept	Efficiency Analysis	Predicted Income Statement	Funding	Performance Indicators
Banker 1	7	6	5	2	4	1	3
Banker 2	4	1	6	3	5	2	7
Inst. Investor 1	1	2	7	6	4	5	3
Inst. Investor 2	1	2	4	3	5	6	7
HNWI 1	3	2	1	6	7	5	4
HNWI 2	2	1	7	3	6	4	5
Average	2,6	2,0	4,3	3,3	4,4	3,3	4,1

Table 13: Results of the Factor-Ranking

As we look at the results for the seven main-factors (the sub-factors will be dealt with later), a clear pattern becomes apparent. Apart from the two bankers, all of the candidates ranked “Location- & Market-Analysis” and “Corporate Concept” either first or second. However, the forecasts, including “Predicted Income Statement” and “Performance Indicators”, did not seem to be that important to the investors. The two bankers strongly emphasised “Funding”, which is somehow coherent with what literature suggested.

Table 14 shows us, how the respective sub-factors of the two seemingly most important main-factors look like.

	Location- & Market-Analysis			Corporate Concept		
	Region/ Town/Location	Sup- ply&Demand	Comp. Sit.	Product Con- cept	Sales-&Marketing Concept	Org. Concept
Banker 2	1	2	3	1	2	3
Inst. Investor 1	1	2	3	2	3	1
Inst. Investor 2	1	2	3	2	1	3
HNWI 1	1	3	2	3	1	2
HNWI 2	1	2	3	1	2	3
Average	1,0	1,8	2,3	1,5	1,5	2,0

Table 14: Sub-Factor Ranking

Here we see, that within the factor “Location- & Market-Analysis” the information about the region, the town or the location was valued more strongly than the other two factors by all the interviewees. Regarding the “Corporate Concept”, trends were not so apparent. What seems to be the least important one within this factor is the organisational concept.

5.4 Analysis

In the following, it will be verified, if the aforementioned hypotheses hold up against the results of the content analysis and the results of the factor ranking.

H₁: Business Plans and Feasibility Studies just serve as a ceremonial cue.

This hypothesis can be supported up to a certain degree, since all investors claimed that they on one hand need the feasibility study (to get a loan, attract investors etc.), on the other hand do not make their decision purely upon the contents of the study.

H₂: To attract outside capital, an extensive forecast of your financial figures is necessary.

H₂ can clearly be rejected as far as the subject group of this study is concerned. As we can see in Table 13, the factors involving forecasts, “Predicted Income Statement” and the consequent “Performance Indicators” were badly ranked by all candidates.

H₃: You can only generate sufficient returns with owning at least two or three hotels.

All the investors had at least two hotels within their portfolio. In addition to that, they claimed, that a diverse portfolio is necessary to deal with external effects.

H₄: Within the feasibility study, bankers particularly look at the financial forecast.

H₄ can be supported in every matter. The two bankers in the subject group were the only ones ranking “Funding” and “Efficiency Analysis” into the top ranks.

H₅ The organisational concept (management team) is a crucial feature within the decision-making.

Since the “Corporate Concept” was emphasised strongly by all investors, this hypothesis cannot be rejected clearly. However, within the factor, the “Organisational Concept” was ranked least important.

6 Discussion and Outlook

Before we can arrive to a general conclusion, a few limitations regarding the empirical part have to be made. The maybe most important one concerns the international validity of the study. The Austrian hotel market is, although its popularity not exemplary for a hotel market in the international context. As mentioned before, a majority of the Austrian hotels are owned and managed by the same person / company. Therefore, the ramification of investor actions which were described in the theory, does not entirely apply to the situation in Austria.

As a consequence, lodging properties as an investment are not that popular amongst the different investor groups in Austria. Therefore, again the applicability of the discussion in the scientific as well as the practical scope is limited. The feasibility study as a tool, however, has its role in the Austrian market in the same way as in any other market in the world.

However, looking at it from this perspective, one can get the impression, this role is not the one planning documents were intended to play. If the results of this study are even to some respect representative, Kirsch (2009) was right that planning documents are nothing more than a costly signal. This creates an urgent necessity, not only in theory, but also for the business world to revise the concept of planning documents in general.

Returning to the initial question, why people decide to invest in hotels, one has to state that when it is an individual decision, yield expectations may not be the reason. When it comes to institutional investors, there are definitely certain patterns. They, however, do not differ significantly from other industries. The most interesting possible development would certainly be a return of private equity companies to the sector. At the moment, however, the probability for this to happen seems not that high.

What definitely depicts itself as a subject for further research, especially in Austria is the field of investments in owner-managed hotels.

What one can see over the course of this thesis is that the hotel investment market is a relatively young and, therefore, constantly changing market. If one actual success factor was identified, it might be the necessary affiliation to tourism in general. The difficulty to assess this versatile field of business certainly calls for a decent amount of personal interest and dedication to generate sufficient revenues.

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8 Appendix

Appendix I - Transcripts of the interviews

Appendix II – Zusammenfassung der Arbeit

Appendix III – Curriculum Vitae

Appendix I - Transcripts of the interviews

Interview 1

Date: 05/08/2012

Duration: 09:10

Interviewee: Private Investor

Florian Wandruszka: Seit wann sind Sie im Hotelinvestmentbereich tätig?

Interviewee: Mittlerweile seit rund 10 Jahren.

F.W.: Wieviel Hotelimmobilien sind in Ihrem privaten Portfolio

Interviewee: Laufend habe ich zwei.

F.W.: Haben Sie auch andere Immobilieninvestments neben Hotels?

Interviewee: Derzeit nicht.

F.W.: Warum sind Hotels ein attraktives Investment?

Interviewee: Für mich ist es so, ich interessiere mich ja nicht ausschließlich für Hotels sondern eher für den Tourismus. Ich gehe sehr oft den schwierigeren Weg, deswegen bin ich zum Beispiel an Bürogebäuden oder ähnlichem nicht so interessiert. Ich konzentriere mich auf den Tourismus, weil ich unser Land schön finde und der Meinung bin, dass bei uns sehr viel möglich wäre.

F.W.: Welchen Hoteltyp präferieren Sie?

Interviewee: Redet über seine Definition von Luxus...

F.W.: Welche Art von Betreiber wünschen Sie sich für Ihr persönliches Investment?

Interviewee: Eine Familie, die dahinter steht, keine internationale Marke. Die Marke brauch ich höchstens für die Bank, weil die glauben, der internationale Betreiber kann das. Der internationale Betreiber funktioniert nur in der Stadthotellerie, weil hier die Details nicht so wichtig sind. Wenn Sie in der Ferienhotellerie eine Rezeptionistin haben, die nicht richtig grüßen kann, werden Sie kein Geld verdienen. Und wenn das Personal nicht geschult ist und Sie den Gast nicht beraten können werden Sie kein Geschäft machen.

Interviewee: Redet über Hoteliersfamilien....

Interviewee: Der Investor hat genau ein einziges Ziel. Geld zu verdienen. Und der Betreiber sollte das Ziel haben, den Kunden zufrieden zu stellen. Dann werden auch ausreichend Gäste kommen und der Investor kommt zu seinem Geld.

F.W.: Welches Vertragsmodell kann das sicherstellen?

Interviewee: Vertrauen. Redet über Vertrauen und einzelne Hoteliers....

F.W.: Haben Sie außerhalb vom Hotel und Immobilienbereich Investments?

Interviewee: Nein, ich mache viel Bauherrenvertretungen und betreue Privatprojekte im Luxusimmobilienbereich.

F.W.: Haben Ihre Hotelinvestments in Ihrem privaten Portfolio eine spezielle Aufgabe?

Interviewee: Nein, die Hotelbranche ist eine bei der sie jetzt nicht so große Renditen erzielen. Das Hotel ist also immer eine langfristige Investition. Und gerade im Ferienbereich ist es überhaupt weniger eine Investition als eine Anlage. Wenn ein Investor also hier auf eine gewisse Rendite besteht sehe ich schwarz.

Interviewee: Redet über bestimmte Hotelinvestoren...

Interviewee: Sie können heute mit einem kleinen auch ihre 10% verdienen, wenn es gut geführt ist. Das ist nur rechnerisch schwer darstellbar, deswegen kann so ein Projekt in einer Feasibility Studie nicht wirklich abgebildet werden.

Interviewee: Redet über Tourismusberatungen....

Interviewee:...Investments werden heute unlogisch dargestellt. Ich mache viele Kalkulationen für Hotels und bin für die Banken meist viel zu teuer. Viele drücken die Investitionskosten auf dem Papier, um eine Finanzierung zu bekommen und hier liegt für mich der große Fehler. Es wird hier an den falschen Ecken gespart. Hier ist der große Fehler in der Kostendarstellung, was die Investorensuche für mich oft sehr schwer macht, da ich das nicht so mache. Ich brauche heute eine Feasibility Studie, um einen Kredit zu bekommen. In der Studie steht aber sinngemäß nur: Wenn ich das Hotel gut führe, kann ich gut verdienen.

Interview 2

Date: 05/18/2012

Duration: 13:43

Interviewee: Private Investor

Florian Wandruszka: Inwiefern haben Sie mit Hotelinvestments zu tun?

Interviewee: Ich investiere als Privatperson, betreue aber auch andere Privatinvestoren.

F.W.: Inwiefern betreuen Sie andere Investoren?

Interviewee: Im Rahmen der Beratung. Wenn also jemand in ein Projekt investieren will und das Risiko von einem Experten dargestellt haben will.

F.W.: Wie würden Sie Ihr persönliches Risikoprofil einordnen?

Interviewee: Da ich auf nicht standardisierte Ferienhotels, meistens in No-Name Standorten gehe, würde ich sagen sehr hoch. Ich weiß aber von vielen, dass die Tendenz dahin geht zu sagen ich will am liebsten Immobilien im städtischen Bereich die erstens von der Transaktion leicht zu kaufen sind und zweitens von der Betreiber-schaft am flexibelsten sind.

F.W.: Seit wann investieren Sie in Hotels?

Interviewee: Da ich in einer Hotelfamilie aufgewachsen bin und wir auch immer unsere Hotels besessen haben müsste ich sagen seit 30 Jahren, von dem ausgehend was ich jetzt mache würde ich aber sagen seit 10 Jahren.

F.W.: Wie viele laufende Hotelinvestments haben Sie?

Interviewee: Zwei

F.W.: Haben Sie andere Immobilieninvestment?

Interviewee: Immobilien nicht.

F.W.: Haben Sie andere Investments, abseits von Immobilien?

Interviewee: Ja, im Bereich der Agrarwirtschaft und sonst in Form von Firmenbeteiligungen

F.W.: Warum sind für Sie Hotels ein attraktives Investment?

Interviewee: Weil ich persönlich auch das Betreiber Know-how besitze und ich deswegen ein hohes Risiko besser abschätzen kann als jemand, der sich mit diesem Bereich nicht so auskennt.

F.W.: Welchen Hoteltyp präferieren Sie hinsichtlich Standort und Klasse?

Interviewee: Wenn ich ein Hotelprojekt hinsichtlich dem geringst-möglichen Risiko für meine Kunden betrachte, dann ist natürlich ein urbaner Standort oder Standorte in bekannten Feriendestinationen mit einem bereits hohen Image idealerweise mit einer Zwei-Saison-Strategie oder einer Ein-Saison-Strategie, die aber hohe Preise erwirtschaften lässt am besten. Hochriskohaft empfinde ich unbekannte Destinationen und Destinationen ohne Einzugsgebiet.

F.W.: Welchen Betreibertyp präferieren Sie?

Interviewee: Familiengeführt sicher nicht. Es muss ein professioneller Betreiber sein. Dass muss jetzt nicht automatische eine Kette bedeuten.

F.W.: Warum glauben Sie ist das für die Sicherung des Investments ausschlaggebend?

Interviewee: Weil Hotels Ertragswertimmobilien sind und ohne entsprechende Erträge ein Hotel einfach keinen Wert besitzt und so auch keine Renditen erzielen kann.

F.W.: Was sind für Sie die entscheidenden Kriterien bei der Vertragsgestaltung?

Interviewee: Grundsätzlich ist es so, dass das Pachtvertragsmodell für einen Investor, der sich in der Hotellerie nicht auskennt, das sicherere Modell. Schwierig ist es dort, wo ich vielleicht mit einem Pachtvertrag auf eine höhere Rendite verzichte, da ich mit Know-how bei einem Managementvertrag sicherstellen könnte, dass ich in guten Zeiten auch entsprechende Renditen erwirtschafte. Entscheidend ist einerseits die Finanzierungsabsicherung und meine persönliche Präferenz, ob ich steuerlich Einnahmen aus Gewerbebetrieb oder Einnahmen aus Vermietung und Verpachtung will.

Interviewee: Redet über Steuersituation in Österreich

F.W.: Haben die Hotelinvestments eine bestimmte Aufgabe innerhalb eines Portfolios?

Interviewee: Ich glaube, dass Hotelinvestments leider vor allem dort beigemischt werden, wo auf hohe Renditen mit einem hohem Risiko spekuliert wird. Aber im Grunde genommen werden Hotels aufgrund ihrer Probleme hinsichtlich dem Thema Spezialimmobilie nur sehr selten beigemischt.

F.W.: Wenn Sie sich ihr Traum-Portfolio zusammenstellen könnten, wäre das ein Immobilienfond mit u. a. Hotels?

Interviewee: Das ist eine Frage, die wir uns selber immer wieder stellen, aber wenn man das Know-how hat auf jeden Fall.

F.W.: Welche Haltedauer streben Sie bei ihren Investments an?

Interviewee: Mittelfristig. In dem Moment, wo Sie wie wir den Fokus auf Betrieb legen, brauchen Sie schnell wieder Kapital, um das nächste Projekt zu machen. Das heißt, ich will und kann gar nicht ewig in der Immobilie drinnen bleiben, am liebsten wäre mir wenn wir das immer nur zum Initiieren des nächsten Projektes hätten und dann wieder aussteigen.

F.W.: Würden Sie das auch anderen Investoren raten?

Interviewee: Das kann man so nicht sagen, das hängt von der Konstellation ab. Wenn jemand nur in ein Hotel investiert hat, dann denke ich, dass der nach einiger Zeit wieder aussteigen wird wollen, außer er hat einen emotionalen Bezug zu der Immobilie. Wenn das jemand ist, der mehrere Immobilien besitzt, dann hat er einen besseren Blick auf den momentan Wert der Immobilie.

Interview 3

Date: 05/22/2012

Duration: 32:20

Interviewee: CEO of *Bank X* (only finances touristic ventures)

Florian Wandruszka: Seit wann sind Sie in der Tourismusbranche tätig?

Interviewee: Als Privatperson seit 1983, als Institution seit 60 Jahren.

F.W.: Wie viel laufende Finanzierungen haben Sie?

Interviewee: Wir haben eine Bilanzsumme von € 1,5 Mrd. Bei einer durchschnittlichen Kreditgröße von € 1,5 Millionen ergibt sich eine ungefähre Zahl. Wir machen allerdings keine Angaben zur genauen Zahl unserer Kreditnehmer.

F.W.: Vergeben Sie auch Kredite außerhalb des touristischen Bereichs?

Interviewee: Nein, wir sind ein reiner Tourismusfinanzierer, finanzieren hier aber auch Unternehmen, wie Pachtbetriebe, also Unternehmen, die nicht über immobilienbezogene Sicherheiten verfügen.

Interviewee: Redet über Hotelbetreiber....

F.W.: Sehen Sie bei den derzeit üblichen Betreiberverträgen die Probleme, die Sie gerade angesprochen haben, abgedeckt?

Interviewee: Nein überhaupt nicht. Diese konzentrieren sich vor allem auf die Fee des Betreibers, bieten aber dem Investor keinerlei Sicherheit. Diese werden auch von uns de facto nicht finanziert. Ich bin nicht bereit, als Finanzierer das wirtschaftliche Risiko gemeinsam mit dem Errichter zu tragen und der Betreiber nichts dazu tut. Gerade bei internationalen Ketten ist das schlimm.

F.W.: Wo würden Sie also die Berechnungsgrundlage für den Fee des Betreibers ansetzen?

Interviewee: Die einfachste Variante, die ich auch gerne in bestehende Verträge hineinverhandle, ist die, dass der Betreiber auf jeden Fall auf seine Fee verzichten muss, wenn er nicht gewisse an covenants gebundene Betriebsergebnisse erreicht. Die können Sie definieren, wie Sie wollen. Aber kein Erfolg für den Eigentümer muss automatisch auch kein Erfolg für den Betreiber heißen. Zweite Variante: Ich will vom Betreiber eine klassische Cash-Flow-Garantie. Sprich einen mindest Free-GOP, den du als Balance-to-Owners auszuschütten hast. Oder natürlich, der Betreiber steigt mit ins Finanzierungsrisiko mit ein.

F.W.: Abstand nehmend von Ihrer Rolle als Kreditgeber, warum sind Hotels ein attraktives Investment?

Interviewee: Sind sie nicht. Einen Hotelneubau in Österreich zu errichten hat vermögensvermehrend derzeit keinen Sinn. Wenn man also keine anderen Gründe hat (emotional etc.) würde ich jedem davon abraten.

F.W.: Wenn sich nun aber jemand nicht abbringen lässt, welchen Hoteltyp würden Sie empfehlen?

Interviewee: Investoren haben meist schon sehr genaue Vorstellungen wo und in was sie investieren wollen. Insofern stellt sich diese Frage nicht. Wenn ich für mich entscheiden sollte. Ein Stadthotel im Bereich All-Suite mit einer 4 Stern Ausstattung, aber einem 2 Stern Service. Das Thema Wohnen auf Zeit. In der Ferienthotellierie würde ich einen klassischen 2-Saison-Standort in einer nicht erstklassigen, aber gut entwickelten Region anstreben, mit einem gehobenen 3 oder schwachen 4 Stern Konzept mit einer teilweisen Apartmentnutzung.

Interviewee: Redet über russische Investoren.....

F.W.: Welcher Betreiber typ ist für Sie ideal, wenn Sie über die Kreditvergabe entscheiden müssen?

Interviewee: Ich bin absolut der Meinung, dass die Familie, die die Immobilie besitzt, diese auch betreiben sollte. Dieses Modell und wir können das beurteilen, schafft an allen Kennzahlen gemessen die höchste Performance. Redet über Hoteliersfamilien.

Interviewee: Redet über die historische Eigenkapitalknappheit im Tourismus....

F.W.: Ist es für externe Investoren interessant, in eigentümergeführte Hotels zu investieren.?

Interviewee: Das kommt ganz auf die Aufhetzung der Beteiligung an. Es funktionieren nach wie vor gut Genussrechtsmodelle, die über steuerliche Verlustzuweisungen arbeiten. Ein Kommanditbeteiligungsmodell macht auf jeden Fall Sinn. Hier geht es vor allem um Kombinationen aus wirtschaftlicher Vergütung und Fringe Benefits für den

Investor. Diese Modelle sind aber leider noch immer Nischenprodukte. Das liegt leider vor allem auch an den Hoteliers, die sich nicht in die Karten schauen lassen wollen. Und das stößt natürlich bei externen Kapitalgebern, die auch gewisse Controlling-Tätigkeiten durchführen wollen und müssen, auf nicht viel Verständnis.

F.W.: In was für einer Art von Portfolio machen Hotelimmobilien Ihrer Meinung nach am meisten Sinn?

Interviewee: Ich könnte mit grundsätzlich schon ein reines Tourismusimmobilienportfolio vorstellen, vorausgesetzt es hat eine gewisse örtliche und produktspezifische Streuung. Ein Mix aus Stadt und Ferien macht sicher Sinn, weil ich eine gewisse Risikostreuung habe und vielleicht sogar eine Ertragssicherheit, wenn mir das eine Segment aufgrund irgendwelcher Rahmenbedingungen wegbricht. Die Segmente ergänzen sich, wie man jetzt bei der Wirtschaftskrise gesehen hat, sehr gut. Rechnen wird sich ein reines Tourismusportfolio allerdings eher nicht. Daher sollte man sicher andere Immobilien in ein solches Portfolio einstreuen.

Interview 4

Date: 05/23/2012

Duration: 13:40

Interviewee: Teamleader of „Team Tourism“ of *Bank Y*

Florian Wandruszka: Wie würden Sie ihre Funktion beschreiben?

Interviewee: Ich bin zuständig als Teamleiter für das Team Tourismus der *Bank Y* und als solches betreuen wir Kunden in einem Umsatzsegment zwischen € 30 Millionen und € 175 Millionen bei Reisebüros und derartige Unternehmen. Sonst bei Hotelprojekten ist die Umsatzgröße nicht das relevante sondern das Finanzierungsvolumen. Hier geht es um Projekte zwischen € 5 Millionen und € 15 Millionen. Darunter deswegen nicht weil das eine Größe ist, die vor allem die Filialen vor Ort machen. Darüber deswegen nicht, weil wir eine zentrale Abteilung für Großprojekte haben.

F.W.: Seit wann sind Sie in dieser Funktion tätig?

Interviewee: Seit 15 Jahren.

Interviewee: Redet über persönlichen Werdegang...

F.W.: Kümmert sich Ihre Abteilung ausschließlich um Tourismusprojekte?

Interviewee: Wir betreuen Kunden aus dem Bereich Tourismus und Infrastruktur. Unter Infrastruktur fallen Bergbahnen aber auch so etwas, wie Pflegeimmobilien.

F.W.: Wenn man davon ausgeht, dass Sie ein Greenfield Projekt beurteilen sollen bzw. über eine Kreditvergabe entscheiden, in wie weit ist der Betreiber entscheidend bzw. bei welchem Typ von Betreiber sehen Sie am meisten Chancen, dass das Projekt erfolgreich wird?

Interviewee: Bei einem erfahrenen guten Betreiber. Und wenn er finanzstark ist umso besser.

F.W.: Es muss also keine Kette sein?

Interviewee: Es muss keine Kette sein. Wenn Sie sich die österreichische Tourismusinfrastruktur und unser Kundensegment anschauen, wir haben in Österreich 120 Millionen Nächtigungen, davon 11 Millionen in Wien, das heißt der Rest spielt sich vor allem im Ferientourismus ab. Im Ferientourismus sind Ketten von untergeordneter Bedeutung, also haben wir sehr oft mit dem klassischen Hotelier zu tun der ein, zwei, drei Häuser führt und der ist uns genauso lieb und wichtig wie es eine Kette in der Stadthotellerie ist, wobei hier unser Kunde natürlich der Immobilieninvestor ist.

F.W.: Aber Sie beraten den Investor doch auch bei der Betreibersuche?

Interviewee: Da muss man schauen in welchem Stadium ein Projekt zu uns kommt. Was sollte denn klar sein? Es sollte der Eigenkapitalgeber klar sein und es sollte der Betreiber auch schon an Bord sein. Wenn jemand in einer sehr frühen Phase kommt, ist die Frage, warum hat er noch keinen Betreiber? Findet er keinen? Braucht er uns dazu? Das sollte ein Hotelinvestor eigentlich auch selber am besten wissen.

Interviewee: Redet über Betreiberlandschaft in Österreich...

F.W.: Welche Art von Vertragsmodell präferieren Sie und warum?

Interviewee: In unserem Segment geht es vor allem um Eigentümergeführte Hotels, deswegen beschäftigen wir uns fast nicht mit Verträgen.

Interviewee: Redet über Eigentümergeführte Hotels...

F.W.: Wie verhalten sich Ihrer Meinung nach Hotelinvestments in einem Portfolio?

Interviewee: Wenn Sie meinen, ob es so etwas wie eine Tourismusanleihe geben könnte, ich glaube, das ist für den Privatanleger zu erklärungsintensiv.

F.W.: Sehen Sie denn generell Möglichkeiten, dass Kapitalgeber auch bei Eigentümergeführten Hotels mit einsteigen?

Interviewee: Natürlich, da ja bekannt ist, dass im Tourismussektor Eigenkapital nicht in Hülle und Fülle vorhanden ist, sehr wohl aber gute Ideen.

Interview 5

Date: 05/25/2012

Duration: 17:10

Interviewee: Head of „Department for Hotel-Development“ of Company X (International Construction Company)

Florian Wandruszka: Wie würden Sie Ihre Funktion beschreiben?

Interviewee: Ich entwickle seit mehr als 15 Jahren Hotel- und Büroimmobilien. Lange Zeit waren es nur Stadthotels, in letzter Zeit kommen aber auch immer mehr Freizeithotels dazu. Die *Firma X* hat derzeit rund 8 Projekte in Umsetzung und in der Entwicklung ca. 5 plus ca. 10 in Deutschland.

F.W.: Das heißt, Sie entwickeln diese Hotels gemeinsam mit Investoren.

Interviewee: Nein, wir entwickeln Sie allein und verkaufen sie, sobald wir einen Betreiber haben, an einen Investor.

F.W.: Wann kommt bei der Projektierung dann die Feasibility Studie ins Spiel?

Interviewee: Ganz am Anfang, um den Standort zu beurteilen. Die Feasibility wird dann noch einmal neu benötigt, wenn der Betreiber feststeht. Da gibt es dann eine genaue Budget-Forecast Rechnung auf die nächsten 5-10 Jahre.

Interviewee: Redet über Standorte in Österreich....

F.W.: Wenn Sie Käufer für ein Projekt gewinnen wollen, was ist die Ihrer Meinung nach die geeignetste Betreiberform?

Interviewee: Das ist je nach Standort unterschiedlich. Bei einer Freizeitimmobilie ist mir eine Familie lieber, in der Stadthotellerie ist mir ein namhafter Betreiber eher recht. Das ist aber nur eine grobe Einteilung. Käufer präferieren aber grundsätzlich große Ketten, da hier das Risiko besser einzuschätzen ist. Für den Investorenmarkt sind aber internationale Ketten sicher besser.

F.W.: Bei welcher Vertragsart sehen Sie die größten Chancen, ihre Projekte an den Mann zu bringen?

Interviewee: Derzeit sind wir zu 90% mit Pachtverträgen unterwegs, das ist aber im Moment gerade ein wenig im Umbruch. Die finanzierenden Banken, die der Käufer aber schon mit an Bord hat, sind aber noch nicht so weit zu sagen, dass sie Managementverträge auch akzeptieren. Man muss aber bei einem Managementvertrag natürlich wieder ein Unternehmen gründen und das ist problematisch.

Interviewee: Redet über Firmengründungen in Österreich.....

F.W.: Wer sind vor allem Ihre Investoren?

Interviewee: Hotelfonds, Stiftungen, Versicherungen (die aber wegen Basel III nicht mehr so). Die Versicherungen werden aber meiner Meinung nach wieder kommen, da

diese ja Langfristige Projekte investieren müssen und Hotels sind ja per se sehr langfristige Investments mit Laufzeiten von bis zu 30 Jahren. Üblich sind aber ca. 15 Jahre mit Option auf Verlängerungen.

F.W.: Es sind also nur institutionelle Investoren?

Interviewee: Größtenteils ja. Es gibt kleinere Projekte mit ca. 120 Zimmern, die auch von Privatpersonen gekauft haben. Das sind aber sehr kleine Projekte. Bei 100 Zimmern werden es ca. € 10 Millionen sein. Alles darüber wird nur institutionell gekauft.

F.W.: Bieten Sie nur einzelne Hotels oder auch Packages an?

Interviewee: Wir haben probiert Packages anzubieten. Das hat aber nicht sehr gut funktioniert. Die Summen am Kapitalmarkt werden momentan eher kleiner.

F.W.: Wie würden Sie ein reines Hotelimmobilien Portfolio beurteilen?

Interviewee: Wenn es eine Differenzierung nach Standorten und Kategorien gibt gut.

F.W.: Wie sehen Sie die Rolle von Hotelimmobilien in allgemeinen Immobilienportfolios?

Interviewee: Ich habe selten gesehen, dass innerhalb von Immobilien gemischt wird. Ist aber auch verständlich, denn Hotels benötigen doch eine ganz andere Verwaltung als zum Beispiel eine Büroimmobilie.

F.W.: Bleibt die *Firma X* auch mit einem Eigenkapitalanteil im fertiggestellten Hotel?

Interviewee: Nein.

F.W.: Verkaufen Sie nur an eine Partei oder auch an mehrere?

Interviewee: Nein.

Interview 6

Date: 06/06/2012

Duration: 23:20

Interviewee: CEO of *Fund X* (only invests in touristic ventures)

Florian Wandruszka: Wie würden Sie die Tätigkeit Ihres Fonds beschreiben?

Interviewee: Wir sind eher ein Finanzierungspartner als ein Investor. Unser Geschäftsmodell ist, dass wir uns mit nachrangigem Mezzaninkapital beteiligen, für das wir einerseits eine entsprechende Verzinsung haben wollen, aber auch wieder abgeschichtet werden wollen. Wir haben zwar auch Hotels, bei denen wir Substanzbeteiligt sind, bei diesen geht es aber dann vor allem um einen entsprechenden ROE, wenn man sie wieder verkauft.

Interviewee: Redet über die Entstehung des Fonds...

F.W.: Wie ist Ihr Fond aufgestellt?

Interviewee: Wir haben ca. € 50 Millionen Eigenkapital, das haben wir größtenteils angelegt, teilweise in Beteiligungen, aber in der Regel als echter stiller Gesellschafter in der Ferienhotellerie.

F.W.: Kommt das Kapital von Privatanlegern?

Interviewee: Nein, es ist institutionelles Kapital, in unserer Rolle als echte stille Gesellschafter würde ich es sogar eher als risikotragfähiges Fremdkapital bezeichnen. Wir sehen vor allem im Moment, dass sich Banken in der Finanzierung sehr zurückhalten wegen den vielen Ratingvorschriften. Es ist also für ein Projekt ein gewisser Anteil an Eigenmittel notwendig, um überhaupt einen Kredit zu bekommen. In der Regel werden 60% bis 70% mit Bankkrediten finanziert, dann hat man im Glücksfall einen Investor der für 10% bis 15% aufkommt und in die Lücke, die dann noch übrig bleibt, setzen wir uns. Wir sind mit unserer Einlage natürlich nachrangig gegenüber den Banken, aber vorrangig gegenüber den Eigentümern.

F.W.: Haben Sie von Ihren Kapitalgebern einen großen Renditedruck?

Interviewee: Der kommt im Moment sehr stark. Wir sind ja eine 100% Tochter der *Bank X*. Und die Buchwerte der *Bank X* muss natürlich nach Basel unterlegt werden. Dass heißt, die *Bank X* will natürlich auch eine Verzinsung in Form von Dividendenausschüttungen. Wir müssen also zumindest die Kapitalkosten der *Bank X* tragen. Das sind im Moment 8%, wenn Basel III dann völlig greift wahrscheinlich um die 10%.

F.W.: Nun zu Ihrem Portfolio, was ich der Homepage entnehmen konnte, finanzieren Sie vor allem eigentümergeführte Hotels?

Interviewee: Ja. Wir haben insgesamt 18 laufende Investments, bei 4 davon sind wir der Eigentümer. Unsere Hotels lassen wir allerdings von professionellen Hotelbetreibern führen.

F.W.: Finanzieren Sie ausschließlich Tourismusimmobilien?

Interviewee: Ja, ausschließlich.

F.W.: In welcher Projektphase steigen Sie üblicherweise ein?

Interviewee: Eigentlich schon in der Projektierung. Sobald die Idee entsteht und über Finanzierung nachgedacht wird, werden wir auch schon angefragt.

F.W.: Glauben Sie, dass Hotelinvestments vor allem im Zusammenspiel mit anderen Immobilieninvestments Sinn machen oder würden Sie eher einen größeren Branchenmix anstreben?

Interviewee: Ich glaube, man sollte hier immer spezialisiert bleiben, weil sonst die Gefahr besteht, sich zu verzetteln. Allerdings sind natürlich die Renditen bei einem reinen Hotelimmobilienfond nicht sehr berühmt. Wenn man also zum Beispiel auch Fondsanteile verkaufen wollte, dann wäre es sicher gut, andere Sachen dazu zu mischen. Seine Kernkompetenz sollte man aber nicht verlassen, also wenn dann andere Immobilientypen, Sachen, wie betreutes Wohnen, Pflegeimmobilien oder aber auch Apartments, die an einen laufenden Hotelbetrieb angegliedert sind.

Interviewee: Redet über Trends im Tourismus und Real Estate....

F.W.: Was glauben Sie ist in der heimischen Hotellerie für einen externen Investor der beste Betreiber?

Interviewee: Aus meiner Erfahrung als Vertriebsvorstand in einem starken Tourismusmarkt (Anm. vor seiner jetzigen Funktion). Wir sind in Österreich relativ klein strukturiert. In der Stadt würde ich Hotels sicher immer professionell managen lassen. In der Ferienhotellerie und da bin ich hundertprozentig überzeugt, brauch ich die Familie, die erlebbar ist vom Gast. Redet über Hotellerie in Wien.

F.W.: Wie lange halten Sie ihre Investments, also vor allem jene, bei denen Sie nicht Haupteigentümer sind?

Interviewee: 10 bis 15 Jahre. Wir sehen uns ja als jemand der Investments ermöglicht, das heißt, in den Schwierigkeiten der Anfangsphase unterstützen wir weiterhin. Zumindest bis die Banken in die Tilgung übergehen.

F.W.: Erwerben Sie durch Ihre Beteiligungen auch operatives Mitspracherecht?

Interviewee: Wir machen ein klassisches controlling und wir haben natürlich Mitspracherecht bei zusätzlichen Investitionen.

F.W.: Investieren Sie immer mit dem gleichen Mezzaninmodell?

Interviewee: Das ist unterschiedlich. Bei unseren älteren Beteiligungen, die wir bis vor 4 Jahren gemacht haben, hatten wir einen Mix aus a-typischer und echter stiller Beteiligung. Dort werden uns natürlich auch Verluste zugeordnet, da wir mit der a-typischen Hälfte auch substanzbeteiligt sind. Mittlerweile haben sich allerdings die gesetzlichen Rahmenbedingungen so verschärft, d. h. du darfst dich nur mehr an 50% des Kapitals beteiligen. Lange Rede kurzer Sinn, wir wollen in Zukunft nur mehr echte stille Beteiligungen eingehen.

F.W.: Wäre für Sie der Status eines REITs interessant?

Interviewee: Es ist bei uns zwar gesetzlich noch nicht möglich, ich schließe es aber nicht aus.

F.W.: Ist es öffentlich, welche Renditen Sie durchschnittlich erwirtschaften?

Interviewee: Nein, das wollen wir nicht publizieren.

Interviewee: Redet über die Entstehung des Fonds....

Appendix II – Zusammenfassung der Arbeit

Die vorliegende Arbeit „Aspects of Hotel Investments“ widmet sich dem Hotel als Investitionsobjekt, den verschiedenen Typen von Akteuren, die in Hotels investieren und der generellen Beschaffenheit des Marktsegments „Hotelinvestments“. Im Speziellen wird die Frage beantwortet, wie die jeweiligen Akteure zu ihrer Entscheidung gelangen, in ein Hotel zu investieren oder nicht. Der Fokus liegt hier auf Entscheidungen, denen (zumindest faktisch) die Lektüre einer „Feasibility Study“ (Machbarkeitsstudie) zugrunde liegt. Zur empirischen Untermauerung wird mithilfe von Interviews, die mit sechs verschiedenen Investoren durchgeführt wurden, die Frage, welcher Teil der „Feasibility Study“ für welchen Typ von Investor besonders relevant ist, ergründet.

Um eine Einordnung des speziellen Marktsegments „Hotelinvestments“ zu ermöglichen, widmet sich der Anfang der Arbeit dem Tourismus als übergeordnetem Wirtschaftszweig. Neben seiner gesamtwirtschaftlichen Bedeutung wird vor allem auf seine historische Entwicklung sowie seine Bedeutung als Objekt wissenschaftlicher Arbeiten eingegangen. Darauf aufbauend wird der Hotelinvestmentmarkt als Teilsegment des Tourismus anhand ganz ähnlicher Kriterien beschrieben.

Nach Beschreibung des Marktes wendet sich der folgende Teil den im Markt tätigen Akteuren, ihren Charakteristika und ihrer jeweiligen Methodik in Hotels zu investieren zu. Um einen Einblick in die Realität eines solchen Investments zu erlangen, werden gängige Vertragsmodelle und die schlussendlich zu erwartende Renditen dargestellt.

Nach diesem noch eher theoretischen Teil widmet sich der zweite Teil bereits dem ersten Teilaspekt der eigentlichen Forschungsfrage, der Frage nach der ausschlaggebenden Information für den Investor. Noch allgemein gehalten werden die wesentlichen Kennzahlen, die zu einer Beurteilung eines Hotels nötig sind aufgelistet. Zusätzlich wird anhand praktischer Beispiele ihre mathematische Herleitung sowie ihre tatsächliche Aussagekraft behandelt. Da ein wesentlicher Aspekt jedes Unternehmens dessen Kapitalstruktur ist, wird darüber hinaus der Frage nachgegangen, wie sich das Verhältnis zwischen Eigen- und Fremdkapital in Hotels für gewöhnlich darstellt und in welcher Art sich der Zugang zu diesen beiden für Hotels gestaltet.

Da nun bekannt ist, welche Informationen dem Investor zur Verfügung stehen, muss noch geklärt werden, in welcher Form diese Informationen erhältlich sind. Neben einer allgemeinen Beschreibung des Instruments „Business Plan“ wird im Besonderen auf die Charakteristika von „Feasibility Studies“ eingegangen, weil die Beantwortung der Frage nach deren Funktion als mögliche Entscheidungsgrundlage noch aussteht. Bevor sich der empirische Teil konkret mit dieser Frage auseinandersetzt, werden noch überblicksmäßig die gängigsten wissenschaftlichen Theorien zur Entscheidungsfindung beschrieben. Dies liefert die Grundlage für das Forschungsdesign, das sich anhand von aus dem theoretischen Teil abgeleiteten Hypothesen der tatsächlichen Forschungsfrage annähert.

Die im Frühjahr 2012 durchgeführten Interviews lassen sich grob in zwei Teile gliedern. Der erste Teil war ein offener Dialog, in dem die grundlegende Motivation der Investoren im Hotelinvestmentmarkt tätig zu sein ergründet wurde. Darüber hinaus waren Themen, wie das persönliche Portfolio, eine subjektive Einschätzung des Marktes und mögliche Erfolgsfaktoren Gegenstand der Gespräche. Ebendiese Gespräche wurden aufgezeichnet, transkribiert und mit einfachen Methoden der Inhaltsanalyse zusammengefasst.

Im zweiten Teil wurden die Investoren gebeten Faktoren, die sich an der grundlegenden Struktur einer Feasibility Study orientierten, nach deren Wich-

tigkeit für ihre Entscheidung zu ranken. Mithilfe der Ergebnisse dieser beiden Analysen wurden die zuvor aufgestellten Hypothesen auf ihre Gültigkeit überprüft.

Die Ergebnisse zeigen, dass es aufgrund der Verschiedenheit der nationalen Märkte einerseits und der divergierenden persönlichen Interessen der Akteure andererseits sehr schwer ist, allgemeine Entscheidungsmuster zu identifizieren. Die Expertise der Befragten, die nebenbei auch als einer der entscheidenden Erfolgsfaktoren identifiziert werden konnte, führte jedoch zu aufschlussreichen Einblicken, die die Branche zu einem gewissen Teil verständlicher machen soll.

Appendix III - Curriculum Vitae

Education

- **Master of Science in Business Administration** October 2012
University of Vienna
Specialization: Corporate Finance
Thesis: “Aspects of Hotel Investment”
- **Bachelor of Science in Management and Economics** July 2009
University of Innsbruck
Thesis: “Strategic Considerations about Destination Development”
Admission to the “Top-Performer” pool of students
- **High School Diploma** July 2004
BRG Viktring, Austria

Professional Experience

- **Project Manager** October 2010 to March 2012
Redmail Logistics
Developed a new line of business
- **Marketing Assistant** October 2007 to July 2009
Bank for Tirol and Vorarlberg
Organized and coordinated cultural activities

Activities

- **Board Member** July 2010 to March 2012
University Management Club
Designed, organized and hosted a successful series of events called “Executive Lounge” with 14 of the most influential CEOs in Austria
- **Fellowship holder**
European Forum Alpbach 2011 & 2012