

Article

Real Estate Crisis and Hospitality Industry

The global economic crisis has forced the Real Estate Sector to diversify their risk by investing or re-directing investments to Hospitality Industry. Hotel Industry must answer the challenge of this movement in both opportunities and new dares within the market.

Spanish real estate sector is one of the most hit by the current international economic and financial crisis. In previous years of growth before the crisis, some real estate companies in the hospitality sector saw an opportunity to diversify their risk and, although as a very marginal trend, invested to build hotels which were then rented or given to management to national or international hotel companies.

Moreover, the current economic crisis has created a situation where real estate agencies find that their assets already built or under construction, will have extreme difficulties in getting buyers or have opportunist buyers with offer prices well below expectations.

Is in this context where Tourism Sector and more specifically the Hotel Business regain prominence and is once again the "shelter sector" of an economy in crisis. The Tourism Industry also accuses the current recession and, most recent indicators suggest, consequences are a reduction in average stays, a drop in average fares and a decline -in city hotels- of conferences and conventions guests while there is a revitalization of the destinations called "of proximity"; fortunately there is no indication that this crisis, despite its obvious consequences, affects Tourism Sector with the same fury as it does affect the property and financial sectors, among others. Facing this scenario, the industry regains the prominence that should never have lost and proves once again its ability to overcome complex situations with greater assurance than any other.

Under these circumstances one might question how the Hospitality Industry will be affected less by national and international crisis itself, but by capital transfers between Real Estate and Hotel Industry. The Real Estate Companies have discovered that a conversion of their promotions, finished or in construction, into hotels of either type, can be a graceful exit to a situation that otherwise seems almost irreversible.

It can be stated also that for those that bet, even residually, to invest in Hospitality, hotel assets divestment represents a lifeline to a critical situation and involves a capital injection for its battered financial situation.

In our firm we have direct and indirect acknowledgement of asset transfers from several Real Estate Agencies to Hotel Sector and vice versa, in some cases through

conversions of real estate promotions to hotels and, and in others, divestitures. In the first case this means the appearance on the market, notably urban, of new hospitality units and offers that entails an appreciable increase in the stock of rooms in the city or destination. In the other case will mean a change of ownership, and perhaps operator, of a good number of hotels.

We'll have to see how this increase in hotel supply, not planned at all, can unbalance the market and how affects prices and occupation, without forgetting that this fact is joining a contraction in demand, especially in meetings, conventions, incentives and conferences markets, that have enormous weight in occupancy rates, price average and, consequently, the gross operating profit of most city hotels.

It will also be interesting to see how competitive capabilities of existing supply respond to an unforeseen situation of increasing supply which undoubtedly will result, in some cases, with the emergence of new hotel operators that will use the opportunity to take position in markets that until now showed no access. It will be time to get muscle to meet new competitive challenges, waist to respond agilely to new demands and reflexes to be alert to new opportunities, like a good old boxing match.

So we must be alert to divestitures to see how these purchase - sell movements can reinforce some policies of horizontal concentration in the hotel market, while we see the attitude of the new owners regarding the management and / or lease contracts of their new properties. In short, the hotel sector, consolidating its role of "shelter sector" may not be able to avoid suffering what, given these circumstances, might be called the "side effects of the crisis. "

Xavier Vives

C4T Director - Partner