

More sophisticated market sees hotel investment become less risky

Africa is of immense strategic value to the hotel investment sector in terms of business. Global president and CEO of hospitality consultancy, HVS, Stephen Rushmore Jr addressed delegates at the THINC Africa conference in Cape Town on global hotel valuation trends.



Global president and CEO of HVS, Stephen Rushmore

“What happens in the United States is indicative of what is happening elsewhere,” said Rushmore. “It is at the peak of its hotel cycle, which has seen eight years of consecutive growth. Many more markets are close to or at peak. So if you’re a hotel investor, you need to think about where you get value appreciation.”

Rushmore said hotel investors, lenders, and management companies have become “increasingly sophisticated over the past 10 years, and as more data has become available, tighter controls are in place so we don’t repeat the volatility of the years past”.

Hotels less risky investments

As such, he added, hotels are less risky investments and will attract investors with a long holder period. “If you are looking to the market to deliver value appreciation, be prepared to wait eight to 10 years. For the next several years, return on investment will be driven by property related strategies and not market appreciation,” said Rushmore.

Rushmore said supply was not a significant risk because it is being absorbed, but that construction financing has become a challenge and entrepreneurial incentives have declined.

Opportunities becoming increasingly niche

“In general, around the world, there aren’t very many ‘hot markets’ and opportunities are becoming increasingly niche,” Rushmore added. “Specific types of hotels in specific markets.”

Rushmore said he is often asked about Airbnb and if posed a threat to the hotel industry. “At this point in time, not a major risk to your hotel investment. They shouldn't be a battle that the hospitality industry should fight,” he said. “They cater mainly to the leisure traveller and are inducing their own demand, especially when demand is unaccommodated in the market.”

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