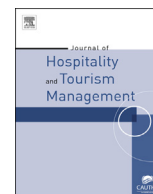




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## An investigation of Australian and New Zealand hotel ownership

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## ABSTRACT

The results of a study seeking to advance a typology of hotel owners as well as examining the composition of hotel owners in Australia and New Zealand are reported. Interview observations resulted in the six hotel ownership categories, discernible from prior commentaries, being broadened to nine hotel owner types. Considerable insights with respect to differentials in the investment time horizon and capital expenditure strategy applied by different owner types were gleaned from the interview data. From a questionnaire survey phase it was found that high net worth private investors and hotel management companies each own approximately a quarter of large 3–5 star Australian and New Zealand hotels. Several distinct hotel operational characteristics are also apparent across the hotel owner types. These include the observation that developer, high net worth investor and strata-title owned hotels tend to be smaller in terms of revenue generated and also these owner types tend to own less hotels. Also, general managers tend to hold their position for shorter periods in hotels owned by hotel management companies and high net worth private investors tend to own older hotels.

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## 1. Introduction

Despite a substantial broadening in the ownership base of the global hotel industry (Haast et al., 2006), literature concerning hotel owner types remains partial, fragmented and piecemeal and is based primarily on normative commentaries provided from a U.S. perspective (Canina, 2001; Field, 1995; Hanson, 2007; Oak & Dalbor, 2008; Wallace & Cossar, 2005). Hotel ownership types can differ significantly from country to country (Haast et al., 2006; Newell & Seabrook, 2006). Despite this, there has been minimal examination of the composition of hotel owners outside the U.S. Following the lead of Haast et al. (2008) and others, this study attempts to identify a typology of hotel owners in Australian and New Zealand.<sup>2</sup> One of the primary contributions of this study is to synthesise and structure the prior fragmented work on types of hotel owners and provide insights into investment strategy differences across hotel owner types.

The study reported herein is believed to provide the most comprehensive listing of hotel owners to be found anywhere in the literature. Specifically, the study has pursued three objectives:

- to develop a typology of hotel owners found in Australia and New Zealand;
- to determine the distribution of Australian and New Zealand hotels across the owner categories identified; and
- to explore for hotel characteristics associated with the different hotel ownership categories.

The study has been informed by two phases of empirical data collection. Firstly, interviews were conducted with twenty Australian hotel industry experts. Secondly, a questionnaire survey was administered to 145 Australian hotel general managers (GMs) and 55 New Zealand hotel GMs.

The remainder of the paper is structured as follows. The next section provides a review of the literature concerned with different hotel owner types. Following this, the method and findings of the study's exploratory interview phase are presented. Then the approach and findings of the study's questionnaire survey phase are outlined. The paper's final section provides a conclusion and discussion of issues arising.

## 2. Literature review

The advent and proliferation of alternative hotel operational forms, such as the management contract (see e.g., Beals & Denton, 2005; Corgel, 2007; Panvisavas & Taylor, 2006; Slattery, 1996; Smith Travel Research, 2003; Turner & Guilding, 2010b), have

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signified a broadening in hotels' mode of owner/operator structuring since the late 1970s (see [Dunning & McQueen, 1982](#)).<sup>3</sup> At an international level of abstraction, the somewhat fragmented literature on hotel ownership types suggests the existence of six main types of hotel ownership. These comprise: (1) real estate investment trusts; (2) institutional investors; (3) developers; (4) high net worth investors; (5) specialist hotel management companies; and (6) strata-titled owners. A case can also be made for identifying an emergent hotel ownership grouping that is financed by sovereign wealth funds. This final grouping is heavily represented by Indian and Chinese corporations as well as companies from oil-rich countries ([Haast et al., 2008](#)). The remainder of this section is structured according to these hotel ownership types.

### 2.1. Real estate investment trusts

A large proportion of hotels in western countries are owned by real estate investment trusts (REITs) ([Nichols & Boutell, 2005](#); [Rowe, 2005](#)).<sup>4</sup> Most REITs are stock exchange listed ([Larkin & Lam, 2007](#); [Rowe, 2005](#)).<sup>5</sup> In addition to hotels, REITs invest in a range of real-estate forms including office, retail, residential, and industrial ([Larkin & Lam, 2007](#)). REITs are generally tax-exempt, with tax payable only at the individual investor level on dividend income or any capital gain arising when an investor liquidates their REIT investment ([Larkin & Lam, 2007](#); [Nichols & Boutell, 2005](#)). REITs enable investors to replicate returns arising from direct property ownership ([Nichols & Boutell, 2005](#)). REITs operate within narrow parameters as they are required to distribute either 90% (U.S. and Australia) or 95% (UK) of their earnings to their investors ([Beals & Arabia, 1998](#); [Mooradian & Yang, 2001](#); [Nichols & Boutell, 2005](#)). Hotels purchased by REITs tend to be at the mid-scale or high-end of the quality range and in good physical order ([Brady & Conlin, 2004](#)).

### 2.2. Institutional owners

Unlike REITs, institutions are not required to distribute a certain percentage of profits to owners. Institutional owners can include lenders ([Davis & DeRoos, 2004](#)), mutual funds ([Firth, 1995](#); [Heisler, Knittel, Neumann, & Stewart, 2007](#)), investment banks ([Bielski, 2005](#); [Norwell & Mambrino, 2006](#); [Oak & Dalbor, 2008](#)), insurance companies ([Firth, 1995](#); [Oak & Dalbor, 2008](#); [Stewart, 2007](#)), superannuation funds ([Hollowell, 2006](#); [Oak & Dalbor, 2008](#)), bank trusts ([Clyde, 1997](#)) and other similar organisations. Institutional investors appear to own a large proportion of the Australian hotel market, as it has been claimed that of Australia's US\$140 billion of total hotel investment product, US\$110 billion is held by institutional owners ([Australia New Zealand & Pacific Hotel Investment Conference, 2007](#)). The recent trend of increasing institutionalised hotel ownership in Australia does not appear to be mirrored in the U.S. ([Newell & Seabrook, 2006](#)).

<sup>3</sup> A hotel management contract can be expressed as "An agreement between a property owner and a management company, who agrees to take on operational responsibilities. The owner, on the other hand, agrees to finance and build the property, if this is not yet done, and to pay for the management services" ([Garcia-Falcon & Medina-Munoz, 1999](#), p. 106).

<sup>4</sup> In January 2007 companies in the UK were allowed to enter into REIT regimes, however, UK REITs are generally restricted to hotel investment only ([Larkin & Lam, 2007](#)). In most other developed countries, REITs are permitted to invest in a broad range of real estate assets ([Nichols & Boutell, 2005](#); [Rowe, 2005](#)).

<sup>5</sup> The terminology for REITs in Australia is different. Listed REITs are known as listed property trusts while unlisted REITs are known as unlisted property trusts ([Haast et al., 2008](#); [Newell & Peng, 2007](#); [Rowe, 2005](#)).

### 2.3. Developers

Some developers retain ownership of a property for an extended period following its construction. The proportion of developer owners typically grows when the hotel market is in a cycle that favours the purchase and redevelopment of old properties ([Hanson, 2007](#); [Nelson, 2006](#); [O'Neill, 2003](#)). It is notable that local and state governments have offered inducements for developers to build and own hotels ([Property Council of Australia, 2003](#)).

### 2.4. High net worth private investors

High net worth private investors appear to be particularly prominent in Middle-Eastern countries, North Africa and China, but much less so in more developed markets ([Younes & Forster, 2006](#); [Yu & Huimin, 2005](#)). It is also notable that [Haast et al. \(2006\)](#) document a growth in high net worth investors in the U.S. They observed that in 1998 high net worth private investors accounted for approximately 4% of all hotels purchased and that this had increased to 10% by 2000. A similar trend is evident in Europe, as high net worth individuals made up approximately 10% of all purchasing activity in 2000, increasing to 12% by 2005 ([Haast, Dickson, & Braham, 2005](#)).

### 2.5. Specialist hotel management companies

[Allison \(2004\)](#) notes that specialist hotel management companies appear to comprise a significant proportion of European hotel owners. In the U.S., however, there appears to be a trend of hotel management companies liquidating their hotel property investments, due to a general perception that their profitability can be enhanced by restricting hotel involvement to a focus on operations management ([Goodson, Dickson, & Williams, 2006](#); [Holmes, Jones, Lockwood, & Miller, 2006](#); [Page, 2007](#)). [Page \(2007\)](#) notes that a downside of hotel management companies pursuing this property selling strategy is that they sacrifice a considerable degree of control following a sale, as they become accountable to the new hotel property owner for operational decisions taken.

### 2.6. Strata-title hotel ownership

'Strata-title hotel ownership' is the term used in Australia when each hotel room has a separate property title. This form of hotel ownership is referred to as 'condominium hotels' in the U.S. [Adler \(2003\)](#) notes a substantial broadening in the extent that major hotel operators are becoming involved in managing strata-titled hotel properties, and [Pizam \(2006\)](#) commented on the extent to which growth of this form of hotel ownership has far outstripped research directed to the relatively new phenomenon. [Warnken, Guilding, and Cassidy \(2008\)](#) provide a commentary on the international growth of tourism accommodation properties owned by way of strata title and identify factors contributing to this growth. These factors include the fact that strata-titling facilitates the sale of rooms off the plan (thereby shortening the time period that a developer funds a new development and reducing developer risk exposure), and also the fact that strata-titling broadens the pool of potential hotel owners to include small investors. It is notable that strata-titled hotels have the same appearance and feel as a traditional hotel, they just have a distinctly different ownership structure ([Disick & Noden, 1989](#)). This factor underscores how strata-title hotel ownership growth has occurred in an unobtrusive manner. While growth in strata-title hotel ownership was rapid around the beginning of the 21st century, [Wolff \(2007\)](#) feels that in the U.S., a lack of law and a framework upon which to base this business model has slowed the earlier boom in hotel strata-titling.

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