

FACTORS INFLUENCING THE OWNERSHIP AND MANAGEMENT STRUCTURE DECISION MAKING IN HOTEL INVESTMENTS

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Abstract

Hotel properties constitute a relatively small percentage out of the commercial property investment sector in New Zealand due to two main factors. One is the significant amount of capital required for the development of such properties while the second factor is the direct relationship between the developer and the specialized tourism industry. The ownership and management structures of such property investment activities are crucial as they determine the risk and financial performance associated with such investments in the long term. The purpose of the research is to assess the hotel development process in terms of ownership and management structures by identifying the common ownership and management structures and factors influencing on the decision making of such structures.

The research reports on the findings of a multi-method methodology approach. Firstly, a survey participated in by major hotel developers within New Zealand has been conducted to assess the common ownership and management structures and the factors influencing the decision making of such structures. Mainly multi-criteria and some open questions have been used to assess the weight attached to each structure. Secondly, in-depth open-ended interviews have been conducted in order to fully clarify and support the data obtained from the survey results.

The research develops the contention that the most commonly used ownership structure in the New Zealand hotel investment market is the Strata Title, while the contractual relationship with the hotel operator is the most commonly used management structure. Furthermore, the study argues that financial factors have a significantly higher influence on the decision making of the ownership and management structures compared with non-financial factors that cannot directly be measured in dollar terms.

Confidentiality Statement

The author has agreed that all personal and company names of participants in this research will be kept confidential.

- ~ *surveys were anonymous, and responses cannot be linked to individuals involved;*
- ~ *Participants are referred to by labels, e.g. Participant A, Participant B*
- ~ *The use of data obtain from participants will only be used for the purpose of which it was collected.*

- ~ *Interview record and transcriptions will be stored in a safe place. Only researcher and supervisor of the project have the right to access the data.*

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1.0 CHAPTER ONE – INTRODUCTION

1.1 Importance of hotel investment in the property industry

There are several large, premium hotel properties in New Zealand. Such properties include the Westin, Hilton, Hyatt, Langham, Stamford brands, and some others. Typical rates in such properties range between the \$130 to \$300 mark per room, per night. Furthermore, the 4 and 5 star hotel properties on average offer between 180 to 300 rooms. As a result, hotel properties comprise a significant value due to the going concern value generated from the operated business within such properties. Consequently, hotel properties are an important sector of the commercial property investment market. The main differences between hotel properties and other typical commercial properties such as retail, offices and industrial is the close link between the hotel properties and the tourism industry. As such, given the stature of the tourism industry, hotel properties are an important property sector.

The hotel investment industry, however, has unique characteristics. These include the direct link to economic conditions and external events such as terrorism, natural disasters etc. More specifically, Newall (2006) has found that in terms of investment, hotel properties offer special characteristics, such as higher volatility than the other property sectors, resulting from unstable cash flows, low risk-adjusted returns, performing more like an operating business than property, low institutional investors support and specialized industry-specific features. Additionally, hotel investment incorporates both business and property risk.

More specifically, hotel investments are different in nature from that within other property sectors as they involve the holding of part of the developed property as an investment. As a result, the developer can also be described as an investor. The arrangement of the hotel development process involves initially the standard development procedure which involves the purchasing of land and construction of the property. However, then it is typical for the developer to retain the ownership of the common areas in order to generate ongoing profit from the operational business within the premises. The purpose of this research is to examine such ownership and management structures, determined initially by the developers and the factors influencing the decision making of such structures.

The hotel investment market in New Zealand is limited in number with only a few companies specializing in the area. The main companies associated with hospitality development and investments are Melview Developments, CP Group, Scenic Group, Accor Hotels Group and Prime Property Group.

1.2 The Importance of ownership structures in the profitability of property investment

Considering hotel properties are capital intensive to develop, different ownership structures have been implemented by investors over the years to fund such developments. The development characteristic of four and five star hotels in western countries has been proven to generally separate the ownership of the real estate from the operational management of the property. Other ownership structures such as selling the apartments/rooms to investors, sale of fraction interest to investors, build own operate and own operate are all common ownership structures in the hotel property investment industry. However, the overall most common ownership structure in New Zealand is the Strata Title structure which is based on the principal of selling the individual units to investors prior to the construction period in order to generate sufficient funds and guarantee to meet the local banks' lending criteria. The hotel operator or management company is then engaged to operate the premises on the behalf of the investors.

Each development structure presents various potential impacts on the financial performance and risk of the hotel as a business in the long term. Therefore the decision making process on the appropriate structure for a proposed hotel development is crucial. For example, if the developer/investor determines to utilize the Build Own Operate structure than he/she is taking the risk of the operational success of the hotel business and as result the risk of financial performance. However, if he/she decides to sell the apartment units based on the Strata Title structure and employ a hotel brand to operate the premises on his/hers behalf than he/she reduces the risk of the long term financial performance. This research is aimed at examining the different factors the developer/investor considers when determining the appropriate development ownership and management structures.

The aim of this research is to explore the common ownership and management structures adopted by local developers/investors in order to ascertain how local developers fund hotel developments. The research is also aimed at exploring the factors recommended to consider before attempting on the decision making of such development structures. This will be achieved by gaining an insight into the developer's attitudes, behavior, concerns and motivation when undertaking the decision making.

1.3 Scope of Research

The aim of this research is to assess the factors investors consider when determining the development structures in 4-5 star hotel developments. In order to establish the common development structures currently available in the market, a comprehensive literature review has been conducted. The common ownership structures obtained from the literature review were then implemented in the methodology practice for this research. More specifically, a multi-method methodology practice has been employed for the purpose of this study. The first stage involved a survey which was conducted to assess the importance of a range of financial and non financial factors influencing the determination of development structures in hotel investment. A total of 8 participants have been achieved which represents around 70% of the 4 and 5 star hotel developers in New Zealand. The respondents comprised of hotel developers which developed and some own those hotels. Two out of the eight participants have further participated in a 45 minute interview which was aimed at further clarifying the rationale behind the results obtained from the surveys.

The focus on 4 and 5 star quality properties is derived from the standard and luxurious quality such properties must offer. Roulac (1996) argues that hotels rating systems have been adopted over the years to create guidelines to hotel properties in order to meet certain standards so travelers can expect the hotel to provide a uniform standard of services and hospitality amenities. Management intent is thus essential but not a sufficient requirement in creating a great hotel property. When judging the physical expectations, the rating system assesses the parking facilities, landscaping covered entry, public areas, dimensions of walkways and hallways, lobby and front office, lobby furniture, lighting, recreational facilities, guest rooms, types and sizes of rooms, security, wall and floor covering, equipment and furniture, amenities and bathrooms. Four and five star hotels typically rated on the above categories and evaluated on service expectations. The main differences between four and five star hotel properties are the recreational facilities, operation hours and service. For example, if two comparable properties share the same amenities and standards but one has a twenty-four hours room service and the other simply provides room service during business hours than the first property is likely to achieve a five star rating where the other is expected to achieve only a four star rating.

Consequently, when it comes to developing such properties, development of four and five star properties share the same nature and standards, both can be classified as 'high quality' hotel properties. As a result, this research is concentrated on the investment of 4 and 5 premium quality hotel properties.

At present there appears to be little literature conducted on the different ownership structures of hotel investment. It creates a gap in the knowledge to potential developers/investors who may consider such developments. As a result, this research attempts to address that conspicuous research gap.

1.4 Research Problem and Objectives

The primary goal of this research project is to examine the common ownership and management structures associated with hotel developments and the factors considered by the investors when determining such structures. Based on the background information discussed earlier in this chapter, the research problem selected to achieve this is the following:

‘What are the factors investors consider when determining the ownership and management structures in a 4-5 star hotel developments?’

Furthermore, the research objectives of this study are formed as sub-research questions as a breakdown of the research problem into smaller, logically connected parts. The sub-research questions will address the various aspects of the problem and the key factors that assumed to influence the primary goal of this study.

The sub-research questions are:

- What are the common ownership and management structures addressed by investors in high quality hotel investments?
- What are the financial factors investors consider when determining ownership and management structures for 4 and 5 star hotel investments?
- What are the non financial factors investorss consider when determining ownership and management structures for 4 and 5 start hotel investments?

1.5 Research Outline

As has been discussed earlier, the aim of this research is to examine the hotel investment industry in New Zealand. More specifically, this research attempts to examine the ownership and management structures associated with hotel developments and the factors influencing the decision making of such structures in the initial stage of hotel developments.

This study is presented in a total of 5 chapters in order to arrive at the required findings for the purpose of answering the terminated research question. Firstly, chapter one is the Introduction chapter which is aimed at providing background information which leads into the research problem. Secondly, chapter two is the Literature Review chapter which is aimed at providing a theoretical analysis based on existing literature found on the subject matter. Furthermore, the literature review chapter provides the basis for the methodology practice employed for the purpose of this study. Chapter three is the Methodology chapter and it is aimed at discussing the most appropriate methodology practice for the purpose of arriving at findings which will complement and answer the research problem. Chapter four is the Data chapter and it presents the findings obtained from the methodology practice. The aim of the Data chapter is to analyze and discuss the data gathered and answer the sub-research questions. Lastly, chapter five is the Conclusion chapter which draws a conclusion on the research problem.

2.0 CHAPTER TWO – LITERATURE REVIEW

2.1 Introduction and Objectives

A growing body of research indicates that development and investment companies who specialize in hotels property development are fairly large investment companies who are willing to commit into a long term dealing with the hospitality industry. Furthermore, Anwar (2002) suggests that the most common ownership and management structure in such investments is based on a long term form of contractual partnership between the development company and the hotel management expertise which manages and operates the premises on behalf of the owners. The contractual relationship between the two parties constructs an ownership structure which is a fairly complex substance. The Ownership structure decision making is often determined in the initial stage of the development as it drives the financial constitution of the development. This research attempts to analyze what factors drive such ownership and management structures from the investors' perspective. The purpose of the literature review is to examine the existing literature on the subject matter.

The hotel investment sector of the property market is fairly unique in nature and differs considerably from other commercial real estate developments/investments. This is due to the close link between the tourism industry and the property's performance. The profitability of the investment is reflected directly by the performance of the operational business within the property premises. Newell (2006) investigated the specific hotel investment characteristics compared to other typical commercial real estate and found that it is the most closely linked property sector to economic conditions and external events such as terrorism and global health infections. Other unique characteristics of hotel investments found are higher volatility than other property sectors resulting from unstable cash flows, low risk adjusted returns, performance of an operating business rather than property, low institutional investor support and specialty industry-specific features.

This review is structured in four parts which are to examine literature on the research's objectives. Firstly, section 3.1 examines the common ownership structures addressed by developers in high quality hotel properties. The review then discusses under section 3.2 the financial factors developers consider when determining ownership structures in hotel developments. Section 3.3 addresses the non financial factors developers consider when determining ownership structures for hotel developments. Section 3.4 summarizes and highlights the importance of the literature to the current study.

3.1 The common ownership structures addressed by developers in hotel investment

It is understandable that high quality hotel investments require a significant amount of capital to develop compared with other commercial real estate. This is mainly due to the high standard of the purpose of the ongoing operational business within the premises. As a result, in order to generate the capital for the development, it is common for developers to separate the ownership of the investment. Newell (2006) performed a study on the investment of hotel properties and found that investment characteristic of quality hotels in western countries has been proven to commonly separate the ownership of the real estate from the operational management. Other ownership structures such as selling the apartments/rooms to investors, sale of fraction interest to investors, build own operate and own operate are all common ownership structures in the hotel property development industry. However, the overall most common ownership structure in New Zealand is the contractual relationship between the developer who develops the real estate and the management company that operates the premises on contractual sustainable basis. The decision making process of the development is essential as it determines the risk and financial performance associated with the development in the long term. This section examines in detail the common ownership and management structures associated with hotel property development.

3.1.1 Fractional Interest

Wolff (2008) argues that one of the common ways traditionally to structure hotel ownership was the time share fractional interest principle. Fractional ownership is a percentage share of the property. Typically the shares are sold to individual owners/investors. The fractional owner benefits from staying in the property for an agreed short period of time each year as well as income sharing. Typically, the hotel management company operates and manages the premises on behalf of the owners, who pay a monthly/annual fees for the management plus variable as an ongoing process.

Wolff (2008) further reviews the development process of La Tranquila Litibu resort in Puerto Vallarta where the master developer sells the apartment units on either fractional interest or as residential units, mainly at the pre-construction phase with the assurance that prices for the units will increase by 15% by the first 60 days of the construction period. He argues that the master developer is in a good position to put on the market the fractional ownership and residence units as there seem to be sufficient amount of interest in both, especially from investors in the retirement age. He also suggests that the residence ownership has high demand as potential sub-developers can purchase a single ownership, and then divide it by 12 ways added to making a sufficient profit. The next ownership structure in sub section 2.1.2 examines in more detail the separation of ownership structure between the developer and the operational and management company.

3.1.2 Joint venture ownership structure

More specifically, Maltz, (2007) argues that hotel property ownership is developed by a typical real estate joint venture between the developer, management company and the capital. Matlz (2007) suggests that capital is generally provided by a third party lender which creates the first imbalance that most joint venture discussion staggers over. Maltz further argues that 4-5 star hotel developments are typically more expensive than commercial developments because of its functionality purposes. In order for the building to generate higher sustainable income over time in the long run, Maltz proposes that when it comes to the joint venture, the developer shall seek a known brand hotel management company.

Taking the argument into a new direction is Farok (1998) who argue that investors tend to go with franchising the operation of the hotel to a brand on behalf of them rather than own operate in order to reduce the risk. They further challenge the topic by questioning the hotel's management perspective on whether to franchise their brand to developers or better the equity based strategy.

2.1.3 Build Own Operate ownership

Hakim (2000) introduces another interesting form of ownership structure called BOOT (Build, Own, Operate, Transfer) which has been used in a few examples of hotel developments overseas. She presents the qualities of BOOT procurement path and ownership structure of such hotels developments and argues their advantages. BOOT is essentially a financing arrangement, in which a developer designs, builds at no cost to the joint venture partner (the hotel management company) who owns and operates the premises as a business for a specified period of time (usually 10-30 years). The management company typically pays a percentage of earnings to the developer during the operation period.

In contrast to all of the above, is the Room Service Journal (1996) who reports on the performance of The Shangri-La Group, one of Asia's richest overseas-Chinese hotel development tycoons. The journal argues that the Group's main point of difference in the hotel development business is the fact that they own and operate all of their properties. In contrast to the authors above who suggest that the separation of ownership and management of hotels development is the most common and efficient way to perceive such development as they believe that the development and running of a hotel property are different skills the journal suggests the opposite. The journal proposes that by keeping the ownership and management of the property, The Shangri-La Group has the advantage of controlling how the hotel should be built, improved and operated as well as the control over the costs and debt levels, resulting in a more efficient way of operation and business level.

2.1.3 'Strata Title' ownership

Taking the argument into a new direction is Beals (1982) who argues the modern pervasive ownership structure in hotel development is the concept of "Strata Title hotel" which suggests that the apartment owners pay the cost of building the hotel and then charged for the operational fee of maintaining the property. Beals (1982) argues that the ownership structure provides the developer with compelling economics. The structure operates on the concept that all or a significant portion of the rooms are condominium units that are sold to third-party buyers. The developer does not even break ground until he has significant and binding presale commitments. Once the units have been pre-sold, the developer can use the funds raised as his equity for the debt finance for the development. Once the building is up, the units sell out and the developer pays back the debt lender. Consequently, the developer drastically reduces, or perhaps even eliminated, its equity commitment for the project. The apartment owners get to put the units into a rental program on which the apartments are managed by the operational management company. A percentage of the income derived from the units goes to the management company for their services and the rest goes to the developer who then pays the apartment owners.

Beals's (1982) theory seems very attractive, however somehow in contracts to him is Gallun (2009) who reports on the failure of the 'condo' system. He examines what went wrong at the Singer Island resort where the rooms' sustainability as investments seems to diminish. Gallun (2009) reports that apartment owners were told initially that profit from the rooms will be split 70/30, 70 percent for the owner and 30 percent for the hotel. However, after investigation it appears that the owners receive less than 45 percent of the profit generated by the units. The difficulty is that the hotel owner owns and operates the common areas of the hotel and manages the unit rentals for the apartment owners. The services and fees imposed by the ownership company are covered by the hotel's condo association, which charges unit owners for the expenses. As a result, the apartment owners in the Singer Island resort seem to obtain lower than expected income from the rentals. Consequently, apartment owners have difficulties keeping paying the mortgage off.

2.2 The financial factors investors consider when determining ownership and management structures in hotel investments

Newell (2006) investigated the factors influencing hotel investment decision making. He argues that hotel investment is different investment in nature to any commercial property development as the property's performance relies profoundly on the tourism industry which is closely linked to the world and economic conditions. Other specific characteristics are high volatility as a lack of long term leases and seasonal influences, low risk adjusted returns, business operation and industry specific features. As a result, Newell (2006) argues that hotel investment incorporated both business and property risks. They have in addition investigated ownership structures and found that the dominated ownership structures in hotel investment comprises public companies, private companies, public trusts and private trusts with operational management contracts.

2.2.1 The main financial factors found considered by developers

Newell (2006) used a survey to identify the factors influencing hotel investment decision making. Their results indicate that there are three main levels of importance in hotel investment decision making. The most important level was financial and location factors, the second level included economic and diversification factors and the final level incorporated relationships between the developer and the management company. As a result, it can be noted that financial factors in the short and long term are profound when determining ownership structure of a hotel development. The findings of the conducted survey were that main financial factors considered in hotel development are:

- Medium term forecast return on investment (five years)
- Historical rates or return
- Unsystematic risk (i.e. liquidity, business, hotel market risk)
- Measure of return
- Gross operating income
- Economies of scale advantages
- Comparable properties

2.2.2 The impact of construction and land costs on ownership structures

Taking the argument into a new direction is Rushmore (2005) who argues that construction costs are a key trend influencing ownership structures in hotel the development. Financially wise, if the hotel development seems not feasible or carries high risk due to the single purpose the property carries then the developer may decide to make the hotel a focal point of a mix use development. The uses could include a mixture of retail, office, residential or recreational faculties. Greater density will lead to more sensible numbers and perhaps better overall land use planning. As a result of the significant cost associated with hotel developments, there is a need for a third or even fourth party investment into the development in order to raise enough equity to debt the loan for the development.

More specifically, Eisen, D (2006) argues that 4-5 star hotel properties are attractive investment because of the high construction and land costs. He argues that due to the significant cost associated with such developments there are fewer properties offering the high quality service and as a result there such properties are strong income fundamentals resulting in a good real estate investment for potential owners/developers. In support of Rushmore (2005) are Canina et al (2010) who argue that as a result of the significant cost associated with the purchase or land and construction of high quality hotels, the Merge and Acquisition is a common practice in order to finance or help a developer to rapidly grow without having to create another business entity.

2.2.3 The financial drive for relationship between the developer and the operator

Deroos (2010) examines the financial factors behind the contractual relationship between the Operational Management Company and the Owner of the real estate. He reports that from the developer's perspective, the main factor derives the separation of ownership structure is the reasonable guarantee of cash flow and the elimination of operational risk. From the operators' perspective, they main factor derives their position is the elimination of the ownership of real estate risk. Deroos (2010) argues that by separating the ownership from the operation of the asset, both the developer and the operational management are better off. The developer, by employing the services of a professional operator and brand for a fee, could generate significant value and cash flow. The operator, by agreeing to manage the property, could generate significant profit and expand the reach of its brand without having to invest in the property.

2.3 The non financial factors investors consider when determining the ownership and management structures in hotel investments

This area of study has been investigated by Malley (1997) who argues that the contractual relationship between the investment company and the hotel management franchisee is often written to the advantage of the franchisor which serves as a legal foundation for a franchise system to permit each entity to deliver a consistent quality of service and product to the public. As a result, Malley (1997) states that one of the factors developers should consider when it comes down to the ownership structures is the contractual relationship. The idea of the contractual agreement is in favor of the franchisee relates back to the rule of supply and demand. There is more demand on the market for management franchisors rather than developers in the high quality 4-5 star properties. This is mainly due to fact that global well known brands in the 4 and 5 star hotel management franchisors are limited numbers. As a result, the franchisor has the sole discretion relating to critical issues such as location, fees, quality standards and contracts with the reservation system. Malley (1997) also argues that from the developers' perspective, when considering agreement with franchisee the developer shall first assess a disclosure statement which states the company's objectives and policies. This will indicate the developer something important about the franchisee management company and the people the developer is to deal with for the long term period of the agreement.

Drawing upon, Anwar (2002) takes the argument a step further and argues that the ownership structures associated with high quality hotel developments determined largely based on the financing strategy of debt and equity ratio of the development rather than the relationship between the developer and the management company which relates back to the financial factors developer shall consider before determining ownership structures. Newell (2006) performed a study on the factors considered by developer when deciding on hotel investment. They found that the main contributing factor to the decision making is financial. However, the non-financial factors which can't be measured in dollar terms contribute 33.1% out of all the factors considered by developers when determining hotel investments. Such non-financial factors include economic, diversification and relationships.

Taking the argument into a new direction is Farok (1998) who argues that investors tend to go with franchising the operation of the hotel to a brand on behalf of them rather than own operate in order to reduce the risk. They further challenge the topic by questioning the hotel's management perspective on whether to franchise their brand to investors or better the equity based strategy.

2.3.1 Risk reduction

Newell (2006) examined the non-financial factors influence decision making on hotel investment. His findings were that the most significant non financial factors were location, diversification and relationships alignment. The relationship alignment relates back to the ownership structures of hotel development, this are commonly franchise, privately owned and operated, condo, lease and management. A franchise operation is privately owned, but the owner pays an up-front fee to purchase the franchise along with ongoing royalties. A privately owned and operated hotel may have investors or others with a financial interest in the hotel, but the ownership structure is in one person or company's name. Leased hotels are owned by an individual or company, but normally lease the physical building. A managed hotel is also privately owned, but has signed an agreement with another hotel brand to run the hotel operations. By choosing the appropriate ownership structure, the developer transfers the risk of operation to the management contractor the leased/contract timeframe.

2.4 Chapter overview

It can be concluded from the above literature that hotel investment carries significant capital investment and risk. Given the specialized characteristics of the tourism industry, literature appears to highlight that it is a common practice to separate the ownership structures of the development by employing an operational management brand to manage the property and perform the ongoing business on behalf of the investor. The profit is commonly divided between the investor, the management company and the individual apartment owners. Study performed by Newell (2006) concludes that the main factors to influence the decision making of hotel development decision making can be categorized into the following main headings:

- Financial, location;
- Economic, diversification; and
- Relationships

The general conclusions that are being drawn from the literature in this study are that the factors influencing the decision making in the hotel development sector are all directly related to the financial future performance of the property as an investment. Other important factors concluded from the above literature are that hotel development is appreciably different from other common commercial property development such as retail, office and industrial. While office, retail and industrial leases tend to be five to ten years in length, hotel leases are only one night long, and that presents its own set of rules. Hotel properties are unique in their characteristics as they operate as an ongoing business and present such concerns.

From the above literature review, it appears that there is a little research on the precise financial and non-financial factors and how they are being evaluated by developers when considering hotel ownership structures. This research attempts to examine in depth such factors by means of literature and in depth interviews with experts on the methods the evaluation process involved. This is to be covered in depth in the next chapter of this research. It is also crucial to mention that no research has been conducted on the matter in New Zealand.

CHAPTER THREE - METHODOLOGY

3.1 Introduction and Objectives

Given the stature of the tourism industry, hotel properties constitute an important sector of the real estate investment market. This research is aimed at getting an insight understanding of the hotel investment industry by identifying the factors developers consider when determining the ownership structures of high quality hotel investments. As been identified in the literature chapter, very limited research is currently available globally on the matter. As a result, this research is to report on the findings of a survey and semi structured in depth interviews participated by experienced hotel investors within New Zealand on the factors considered by them when determining the ownership structures of hotel investments.

This chapter outlines the research design and methods used in this study. The methodology selected for the purpose of this research is based on both qualitative and quantitative methods. Both methods have been selected for the purpose of this research in order to enable an in depth analysis of expert opinions and statistical data to arrive at precise findings. The quantitative method will enable the research to present the weight attached to the factors influencing the decision making when determining ownership structures while the qualitative method in this research is aimed at fully clarify and support data obtained from the quantitative method by implementing in depth open-ended interview questions from the selected participants.

This chapter is structured in six components, each explaining different aspects of the methodology methods selected for the purpose of this research. Firstly, section 3.1 describes the literature on the methodology methods selected and the planning stage. Section 3.2 then describes the data collection methods associated with the selected methodology. The next section 3.3 explains the data collection instruments, following by section 3.4 which describes the interview participants and the implementation of the in-depth interviews. Section 3.5 explains the ethics considerations following by the final section 3.6 which summarises the chapter.

3.2 Methodology

The methodology selected for the purpose of this research is based on multi-method research approach which includes both qualitative and quantitative research methods. Tashkkori et al (1998) investigated the advantages of the multi-method methodology and argues that the method provides a form of triangulation which seeks to validate data and results by combining a range of data sources and methods, discovering fresh or paradoxical factors that stimulate further work and expansion – widening the scope of the study to take in contextual aspects of the situation. Two factors were considered when deciding on the appropriate research methods for this study. The first factor is the overall research strategy following by the required data for the purpose of this study.

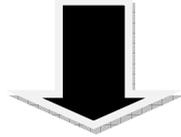
The first method implemented for the purpose of this study is the quantitative method; it aims at exploring data in a statistical approach. Thomas R. (2003) describes the quantitative research method as a method that focuses on measurements and amounts. He further argues that the researcher's role in the quantitative research is to observe and measure the data. The quantitative method has been selected for the purpose of this research based on the research's agenda which is to explore the ownership structures associated with hotel development and their impact on the decision making of such structures on potential developments. By implementing the quantitative method, this research attempts to explore the findings in a statistical approach in order to determine the weight attached to each factor considered by hotel developers when determining the ownership structures of potential investments. The quantitative method design in this research is presented in questionnaire ranking and open questions form which is to be participating by 8 hotel investors/developers in New Zealand. The ranking questions ask the respondent to order and select their perception and preferences on choices from a list in a particular way. This design will provide ordinal data where the respondents "order" information. Once all the information from the questionnaires is gathered, the ordinal data is to be analysed in a weighing system in order to establish the importance and impact of each factor on the decision making of developers when determining the ownership structures for prospective hotel investments.

While the quantitative data attempts to analyze the findings in a basic statistical manner, the subsequent method is qualitative. According to Hakim (2000), qualitative research is aimed at putting together into frameworks a descriptive report on individuals' motivations, behaviour and perception. It means that the data obtained in the research will be analyzed in the 'why' question rather than 'how'. Lindlof R. et al (2002) supports Hakim's view and reports that qualitative research seeks to preserve and analyze the situated form and experience of social action, rather than subject it to mathematical or other formal transformations.

The qualitative research will be used in order to gain an insight into developers' attitudes, behavior, concerns and motivations when it comes to decision making on ownership structures in high quality (4-5 star) hotels property developments based on the quantitative data previously obtained. Furthermore, the design selected for the qualitative part of this methodology is semi-structured open-ended in depth interviews. Hakim (2000) investigated the semi-structured in depth interview design method and reports that the method is based on the principal that the interviewer guides the discussion enough to focus on the topic of interest, while the depth interview provides enough freedom for respondents also to steer the conversation, for example to bring in all sorts of tangential matters that, for them, have a bearing on the main subject.

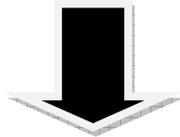
As can be noted from the diagram below, the qualitative method is to follow the quantitative analysis before the data is concluded based on the integration of both methods. The reason for this sequence is that the qualitative methodology is to be analyzed based directly on the results obtained from the quantitative data, resulting in a form of triangulation data collection which backups and supports the first stage of the methodology.

Implementation of literature review findings into survey questions



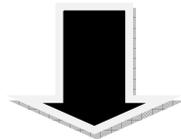
Ownership structures survey

Data Collection	Data Analysis	Output
8 surveys	Statistical analysis	Insight into research questions



Semi-structured, in-depth interviews

Data Collection	Data Analysis	Output
2 Auckland investors (participated in the survey prior)	Themes and patterns identified	Probe and explore the survey findings in more depth



Conclusion – Integration of the findings of the two approaches

Figure 1 - Methodology method

3.3 Data collection methods

As been described above, the selected data collection methods are based on the quantitative and qualitative methodology approaches. For the quantitative part, questionnaire method has been selected (based on closed and some open questions) in order to allow participants to ‘rank’ and ‘order’ their perceptions and expertise. For the qualitative approach, in depth open-ended interviews approach has been chosen in order to have the opportunity to obtain insight understanding and further explore the data obtained in the quantitative approach.

3.3.1 Questionnaires

Based on the participants’ selection criteria (section 3.5) the selected participants in the questionnaire method will first receive a preliminary email or phone call in order to obtain the interest rate and confirm the response rate. Once the response rate has been established, each approved participant will be sent a questionnaire with participant’s consent form to complete with pre-paid envelopes. The questionnaire has been designed with mainly closed and some open questions. The closed questions have been designed with mainly ranking and ordering formats while the open questions are there to enable the participant to include any additional information they feel is necessary to add.

The ranking system of questionnaire has been selected for the purpose of this study based on the research’s objective which is to find the factors influencing the decision making of hotel development ownership structures. The ranking system enables the study to collect an accurate data which is to be analyzed in a weighting system as well as to establish the levels of importance in the factors influencing the decision making on ownership structures. William (2001) investigated the questionnaire method and reports that the method enables the researcher to retain a data which is fixed and does not change according to how the reply develops. The questionnaire is the same for each respondent and the answers are fixed, allowing the researcher to analyze the data into a statistical form. Walonick (2002) supports William (2001) by arguing that questionnaires are structures instruments, allowing little flexibility to the respondent with

respect to response format. Furthermore, Walonick (2002) argues that the researcher shall allow frequent space for comment as they often provide insightful information that would otherwise be lost. As a result, Walonick's (2002) and William's (2001) suggestions are implemented in the format design of the questionnaire.

3.3.2 Interviews

Three interested local participants from the quantitative analysis will be selected to further participate in the study by partake in the in depth interviews in order to further explore the findings obtained from the questionnaires. The in-depth interview questions will be based directly on the findings employed by the quantitative analysis by asking questions such as 'why' you have indicated in your questionnaire that 'X' ownership structure is more influential than 'Y' ownership structure on your determination of your decision making. The questions will be designed to get an understanding of the experts' opinion, behaviour and perceptions. The triangulation multi-method design of both the quantitative and qualitative methods forms the primary data for the purpose of this research which is aimed at answering the original research question.

The in depth interviews appear to be a common practice as a qualitative data collection method. Marshall et al (1999) describes the in depth interviewing process as a "conversation with a purpose" where the researcher typically explores a few topics to help uncover the participant's view, principally the participant's perspective on the phenomenon. Furthermore Marshall et al (1999) argues that interviews allow the researcher to understand the meaning that people hold for their everyday activities. Bouma (1996) supports Marshall's view and reports that in-depth interviews provide the greatest opportunity to find out what someone thinks or feels, and how they react to different scenarios. As a result, it appears that the open-ended in depth interviews is the appropriate method to follow for the purpose of the quantitative data collection objective of this research.

3.4 Data collection instruments

The data collection instruments involve the design and planning of the questionnaire and interview questions. Each approach has been designed separately based on the research method's objective.

3.4.1 Questionnaires

For the questionnaire part, a set of questions were developed based on the research objectives which are the sub-research questions topics. The first section of the questionnaire involves background questions on the organization and their development activity. This information is vital in order to gain an understanding of the selected participants and their place and activity in the population. Furthermore, research indicated that providing the participants with 'straightforward' questions at the beginning of questionnaire is a good means to capture the participants' attention. Most of the questions developed are closed questions, it provides the respondent with a fixed response type answer.

Thereafter, the questionnaire is divided into the sub research questions topics. The first section covers common ownership structures where the participants are asked to indicate the ownership structures they have experienced throughout their career in the hotel development sector based on common ownership structures found in the literature review part of this research. Space for 'other' is also provided in case some participants have used ownership structures which are not stated in the literature. Some open questions have also been designed in order to get a more in depth understanding of how effective the developers found their ownership structure to be and how effective they perceive it to be compared to other common ownership structures.

The next part of the questionnaire is based on the financial and non financial factors developers consider when determining ownership structures. In both sections the participants are asked to 'order' their responses in a rating order i.e. how important they perceive the factors found in

literature to influence on their decision making when determining ownership structure for a prospective hotel development.

3.4.2 Interviews

Three participants from the questionnaires approach who demonstrated their interests in the research are also take part in the interviews method, each interview is to take up to 45 minutes. As has been discussed earlier in this chapter, the qualitative approach attempts to get an insight, understanding and further exploration of the quantitative results. Consequently, the interview questions have been developed based on the results obtained from the questionnaires data. For example, questions such as “You have indicated in your survey that your preferred ownership structure is ‘X’ could you please explain in detail why this is your preferred ownership structure?” or “Research conducted in Australia determines that the most common ownership structure over there is the ‘Strata Title’ ownership structure, you have indicated in your survey that you only use ‘X’ ownership structure for your developments, could you please explain why you only use ‘X’ structure rather than ‘Strata Title’”. The above questions are examples of how the qualitative approach attempts to further explore and back up the quantitative data obtain from the first stage of the methodology.

3.5 Participants

The initial stage of data collection methods for the purpose of this research commenced with the search for appropriate organizations for the purpose of the primary data of this study. Considering the limited population of the appropriate participants, all potential participants' information has been collected. The table below represents the major 4-5 star hotel groups and brands in New Zealand.

Westin
Stamford Plaza
Hyatt Regency Auckland
Hilton
Langham
Quadrant
Skycity hotels
Metropolis (currently operates as residence only)
Scenic hotels
Prime Hotels
Accor hotels
Intercontinental hotels
Holiday Inn
Mercure Hotel
Tainui Group

Figure 2- Participant's significance

Around 80% of the developers behind these major hotel groups and brands have participated in this study. An allowance of 10% has also been made for other potential unidentified groups. Therefore it is fair to estimate that this study represent around 70% of the population in New Zealand for hotel developments.

Participants have been evaluated based on their development activity in the hotel development sector. In general, the evaluation took into consideration the number of hotel properties potential participants hold and the approximate value of their portfolio. Based on the above, eight participants have been selected to participate in the research. Eight out of the ten identified participants agreed to take part in this project.

Successful participants were initially contacted via phone call or letter in order to confirm the response rate and provide the participant to clear any questions or doubts. Once the response rate has been established, each approved participant has been sent a cover letter with an overview on the research topic. Successful participants were then sent the questionnaire with a participant's consent form to complete with pre-paid envelopes. Participants were asked to complete and send back the questionnaire within a timeframe of two weeks' time. Parties that have demonstrated interest in the research have also been asked via phone call to further participate in the in-depth interviews approach.

3.6 Ethics Consideration

The ethical practice of this research has been approved by the Unitec Research Ethics Committee in order to ensure correct ethical practice followed. All care is taken in order ensure good ethical practice throughout the research process. Unitec ethical considerations were followed in order to ensure this. All participants of this research were issued with a participant form in order to ensure that participants are aware of their position in the research. Other procedures to ensure ethical practice include:

- Prior to process of obtaining voluntary participation of individuals in the research the individual will be informed by writing of the possible benefits and risks to them. Participants will be asked to sign an informed consent form prior to their participation in the research.
- The participants in the research must not be subjected to unnecessary risk of harm as a result of their participation.
- Participants will be allowed to control over the extern, timing and circumstances of their participation.
- Deception or misrepresentation will be avoided, participants will have the right to know what they are participating in and will have the option of obtaining a copy of the final research.
- The use of data obtain from participants will only be used for the purpose of which it was collected.
- All interviewee for this study will remain anonymous, participants are labelled as numbers i.e. interviewee 1, interviewee 2 etc.
- Interview record and transcriptions will be stored in a safe place. Only researcher and supervisor of the project have the right to access the data.

3.7 Chapter Overview

This chapter reported on the methodology practice employed for the purpose of this study. In summary, based on the research's objectives the multi-method methodology approach appears to be the most effective. Both quantitative and qualitative methods have been selected in order to enable an in depth analysis of expert opinion and statistical data in order to arrive at precise findings. The quantitative questionnaire enables the research to present the weight attached to the factors influencing the decision making of ownership structures while the qualitative method is aimed at further exploring and support the data obtained from the quantitative approach. The validity of the information gained from the above approach will be of a high standard and will enable the study to answer the research question in a precise and in-depth means.

4.0 DATA ANALYSIS

4.1 INTRODUCTION AND OBJECTIVES

The aim of this chapter is to analyze the common ownership and management structures available in the New Zealand hotel investment market. Furthermore, the research examines the financial and non-financial factors influencing the decision making of such ownership and management structures. This is achieved via the assessment of the data obtained from the methodology technique employed for the purpose of this study.

In order to examine the objectives of this research, participants were asked to first participate in a survey where they were asked rank their preferred ownership and management structures and the factors they perceive to influence the determination of such structures. The data obtained from the surveys was then analyzed in a statistical analysis method. The results were analyzed with graphs and ranks in order to establish a visual representation of the information obtained. Participants were then asked to take part in interviews where they were directly confronted about the results obtained from the survey method. The aim of the interview stage was to reflect on the findings obtained from the survey method. Similarly, this chapter is written in the same method. Firstly, the results from the survey followed by backed up data and quotes from the interviews.

The participants in this study represent around 70% out of the 4-5 star hotel development population in New Zealand (see participants' significance table). As a result, it is fair to state that the findings of this research appropriately reflect the New Zealand hotel development market.

The chapter is structured in four main components. Each component covers the data obtained from the methodology practice based on each of the sub-research questions. Firstly, section 4.2 presents the characteristics of the participants, in terms of their experience and value of their hotel investment in New Zealand. Secondly, section 4.3 explores the common ownership structures addressed by developers in the hotel development market in New Zealand. Section 4.4 then explores the financial factors developers consider when determining such ownership and management structures. Section 4.4 then covers the non financial factors developers consider when determining the ownership and management structures. Lastly, section 4.5 draws a conclusion on the data obtained from this study.

4.2 Participants' Characteristics

As has been identified in the literature review chapter, eight out of the ten participants have agreed to take part in this research project. The following table has been based on the results obtained from the initial background questions in the survey method. The table outlines the research's participants' characteristics:

Participant's identification	Local or International	Experience	Hotel properties currently held	Value of hotel investment	Location
Participant 1	Local & International	6 to 10 years	1 Proposed	Between 61mil - 80mil	Auckland
Participant 2	Local	6 to 10 years	3 properties	Over 81mil	All major cities
Participant 3	International	Over 20 years	Over 10 properties	Over 81mil	All major cities
Participant 4	Local	10 to 20 years	3 Properties	Between 21mil – 40mil	Wellington
Participant 5	Local	10 to 20 years	1 sold	Over 81mil	Auckland
Participant 6	Local	6 to 10 years	1 Property	Between 61mil -80mil	Auckland
Participant 7	Local	10 to 20 years	Over 10 properties	Over 81mil	All major cities
Participant 8	International	10 to 20 years	Over 10 properties	Over 81mil	ALL major cities

Figure 3 - Participants' characteristics

As can be noted from the above, the participants of this study comprise a significant part of the hotel properties in New Zealand in relation to the population size in the country. Three participants currently hold over ten hotel properties in New Zealand, and five of the participants hold a portfolio value of over \$81 million. It can also be noted that all of the participants have over six to ten years experience in the field.

4.3. The common ownership and management structures addressed by developers in the hotel investment market.

In order to establish a link between the literature review and the data findings, participants were asked in the survey to identify which of the common ownership and management structures found in the literature review chapter they currently use. Furthermore, participants were also asked to rank their personal preferences on the structures based on their experience. The structures are:

- **Strata Title (residence and hotel pool)** – the structure is based on the principal of selling the units/apartments ownership to individual owners/investors. In this structure, the apartment owner has the option of either to resident their unit (typically in properties where full kitchen facilities are fitted) or to have their apartment in the hotel pool as an investment by generating a percentage of the derived income.
- **Strata Title (hotel pool only)** – the same method of selling the apartments to individual owners in order to generate sufficient capital to develop the property. However, the individual investors may only have their apartment in the hotel pool as an investment. This is a typical structure when the developer wants the hotel property to function as a hotel only.
- **Management Contract with the hotel operator** – hotel operator is engaged by the developer to manage the business on their behalf. The remuneration of the hotel operator is typically derived from the gross operating profit.
- **Joint Venture with the hotel operator** – the structure is based on the principal that both the developer and the hotel operator share a financial interest in the property and the business.
- **Build Own Operate** – the developer invests either all or the majority of the capital required for the development, the developer then operates his/her own property.

Participants have also had the option to specify any other ownership and management structures they have used or currently using. No additional structures have been identified by the participants. As a result, it is fair to conclude that the structures found in the global literature are also being followed in the New Zealand hotel investment market.

In order to examine the commonly used ownership and management structures in the New Zealand hotel development market, the survey respondents were asked to indicate which structures they are currently using within their portfolio. The following data has been obtained from the survey:

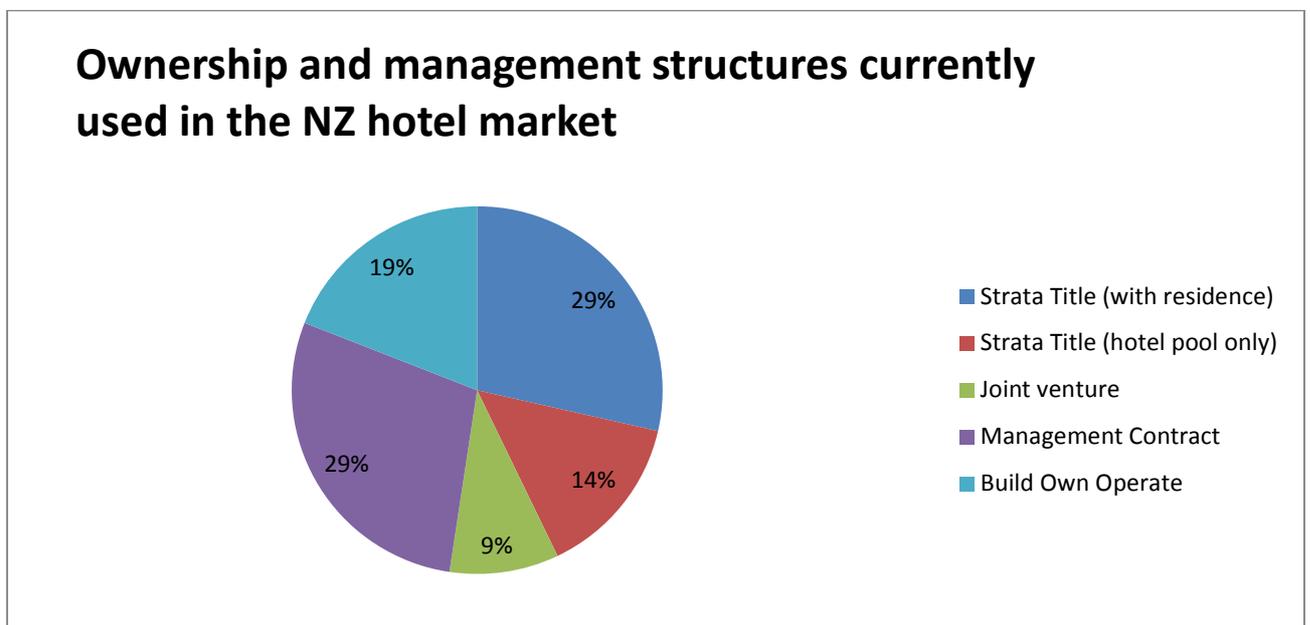


Figure 4 – Ownership and management structures currently used in the NZ hotel market

As can be noted from the graph above, the most common ownership and management structures identified as currently being used in the New Zealand market by the survey are the Management Contract and Strata Title (with residence). The interviewees further clarified that both of the structures commonly used together as a combined structure. The participants in the interviews have identified the typical structure which involves both strata and management contract as the following:

1. Developer acquires the site for the development.
2. Developer obtains preliminary design and pre-sales the apartment units to individual investors which have the option of either to resident their apartment or to have it in the hotel pool. During this time the developer also negotiates contract conditions with hotel operator for the management of the hotel on his behalf.
3. By pre-selling the apartments, the developer generates enough equity and security to obtain a loan to finance the development from primary source such as a trading bank and from a secondary source such as a mezzanine finance company.
4. Once the development is complete, the developer engages the management company to manage the premises on his behalf based on the negotiated contact conditions. Typical management term is about 10 to 20 years.

The second common currently used ownership structure found in the survey data is 'Build Own Operate'. The Build Own Operate structure means the developer invests often the majority or all of the capital required for the development. The developer hence owns all the units and common areas in the property and also manages the premises. As a result, profit generated from the hotel business goes directly to the developer. The Build Own Operate structure provides the developer with control and decision making over the hotel as a property and as a business.

Both Strata Title (with hotel pool only) and the Joint Venture structure appears from the survey results to be the least common structures currently used in the hotel development market. The rationale behind these results is discussed in more depth later on in this chapter based on the results obtained from the interviews.

Participants were then asked to rank their personal preference of the above commonly used ownership structure. The following data was obtained:

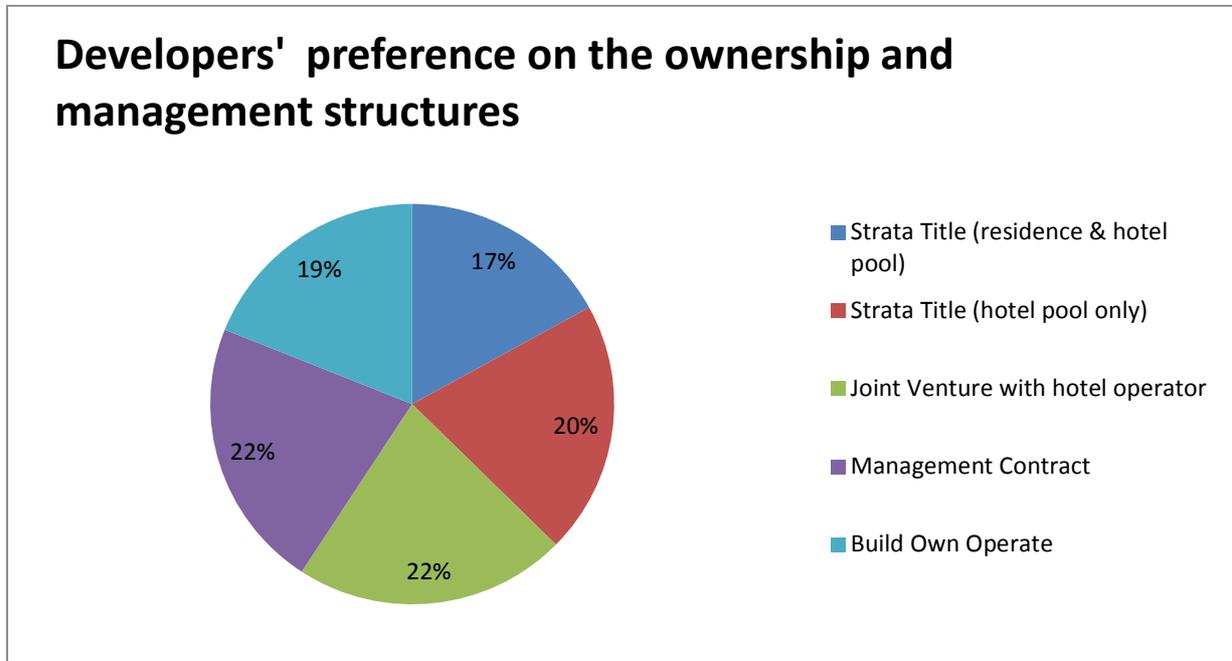


Figure 5 - Developers' preference on the ownership and management structures

	Strata (with residence)	Strata (hotel pool only)	Joint Venture	Long term contract with operator	Build Own Operate
Participant 1	2	2	3	3	4
Participant 2	1	3	4	3	3
Participant 3	2	3	3	3	3
Participant 4	4	3	3	3	1
Participant 5	2	3	2	3	2
Participant 6	2				4
Participant 7	2	3	3	2	4
Participant 8	1	1	4	4	4
Percentage	17%	20%	22%	22%	19%

Figure 6 - Participants' ranks on the preference of ownership and management structures

Participants were asked to rank their preference on the ownership structures on a scale between 1 to 4 where 1 was least preferred and 4 the most preferred.

4.2.1 Strata Title

As can be noted from the above diagrams, the Strata Title with residence is the most commonly used ownership structure on the market, but it is also the least preferred structure by the investors. The results of the developers' personal preference almost completely contradict what has been identified earlier, as the results from the second question in the survey clearly identifies the joint venture as most favorable structure by the participants. It can be interpreted as the ownership structures developers' use are not necessarily the structures they favor. This finding has further been explored in the interviews. Participants were asked directly why they perceive the Strata Title structure to be their least preferred structure while it is the structure they commonly use. The following particulars have been obtained to support the finding:

“As a developer, initially the strata title structure is the best one. It provides an easy access to equity in order to meet lending criteria and it is less capital intensive. Strata Title though provides ongoing management issues and therefore is hard to operate. “

“At the end of the day, an ownership structure will be directly derived from the lending criteria imposed by the banks in order to fund the development.”

“The Strata structure is very complex structure with many diverse interests and strategies.”

The participants have indicated that the main reason they choose to use the Strata Title with residence structure is due to the lending criteria imposed by the local banks in order to finance the development. This factor is further examined in the survey in terms of significance and discussed later in this chapter. The requirements imposed by the local trading banks often include the pre-selling of the units for security reasons and equity towards the loan to value ratio. Therefore the Strata Title is a commonly used method to structure such developments. Furthermore, the Strata Title with residence structure is easier to pre-sell as it provides flexibility to the owners. The apartments can be sold both as an investment property and as a residential apartment hence the selling process becomes easier as the units apply to different types of buyers, resulting in an easy access to capital.

The participants have further indicated that the ongoing operation of the Strata Title is a complex in nature and it offers many ongoing issues in the long term.

“Strata Title has uncertainty over room inventory numbers remaining in the hotel pool”

“The problem with Strata is that there are many owners, their return expectations tend to be high and inventory is unknown due to the significant number of owners.”

The participants have indicated that the majority of the ongoing operation issues with Strata Title are due to the number of owners resulting from the structure. As the owners have the option of either residing in their apartment or having it in the hotel pool, the investor and the management company have uncertainty toward the number of rooms which remain in the hotel pool, which will derive the income in order to fund the operator’s and the hotel investor’s ongoing profit.

“The (hotel room) rates in New Zealand are ridiculously low compared with overseas, and the workforce cost is high. Therefore hotel investment in New Zealand is not very profitable.”

“In strata, when the apartments are sold to investors, the investors are guaranteed a percentage of return for the first few years. Due to the low rates for hotel rooms in New Zealand, after the first few years it is common for the individual investors to have their room out of the hotel pool and generate rent from the apartment instead. This results in a complex operation for the hotel as a business and potential issues between the developer and the management company as revenues are uncertain.”

The participants have indicated that with the Strata Title structure, individual investors are guaranteed a percentage of return on their investment for the first three years. Additionally, the participants have also indicated that the guaranteed return is built into the purchase price. Once the guaranteed period is over, the return on the investment for the individual apartments is not that high due to the issue of low hotel room rates in New Zealand. As a result, participants have indicated that hotel investment is not very profitable in New Zealand and offers a high degree of complexity in terms of ongoing operation.

The Strata Title (hotel pool only) structure appears to be more favorable by the investors as there is a degree of certainty over the income and operation of the hotel. It is however more difficult pre-sell as the apartments may only be used as an investment and therefore the selling of the units is a more difficult process.

“Many developers who have chosen to use this structure (Strata hotel pool only) in New Zealand had to go overseas to find investors.”

The participants in the study have confirmed that the main difficulty with the Strata – hotel pool only structure is the ability to generate adequate number of investors in order to meet the lending criteria. Considering 4-5 star hotel properties often offer 200 plus rooms, it could become a significant challenge to source the required number of investors in order pre-sell the units. As a result, the Strata Structure with residence is a more common structure on the market as it allows the developer to locate owners with both investment and residential objectives.

4.2.1 Management Contract

As been identified in the survey findings, the Management Contract structure and the Strata Title structure are commonly used together as a combined entity. In contrast to the Strata Title structure, there is a consistency with the management contract structure. It was both highly ranked as a common structure on the market and also as a preferred structure. The structure is based on a principal that the hotel investor gives the hotel operator the right to operate the property on his/hers behalf. The process of selection of the management company typically involves the negotiation of a contract with the management company at the early stages of the development. The hotel investor may be required to contribute to a range of expenses incurred by the hotel operator in conducting the letting business. The participants in the interview have confirmed that this process of negotiation of contract is a complex one.

“Different management companies have different objectives and requirements. Therefore the negotiation process involves the progression of aligning a structure which satisfies both parties.”

The negotiation process also typically involves the discussions on the guaranteed rate on investment (ROI) between the operator, developer and individual investors (in Strata). Due to economic climate and unforeseen problems the rate can alter and a conflict may arise. As a result, the negotiation process of contract is a vital one and ensuring that both the developer/investor and operator have aligned objectives will impact on the success of the business over the long term period.

Participants have also indicated that from their perspective, engaging a known brand management company provides a reasonable assurance to income. For example, brands such as the Hilton or Hyatt bring customers from over the world. This is classified as the value of ‘Goodwill’ and the success of the hotel business is more likely to succeed as if it was operated by an un-known brand.

Typically the management contract comes into effect once the development is complete and on typical terms is between 10 and 20 years with the right of renewal.

“The problem with hotel development is that generally you have to employ a management company to operate the property, conflicts do arise overtime and this can potentially have a significant impact on the business performance over time.”

The overall performance of the business is a common concern to the participants of this study when it comes to the management contract structure. It appears that conflicts with the operator over the management term is a common issue and it can impact significantly on the return individual investors generate. As a result, participants have indicated that the process of negotiation is a critical one prior to establishing the management contract.

4.2.2. Build Own Operate

At the other end of the spectrum from the Strata Title structure is the Build Own Operate structure which is much more capital intensive. It requires from the hotel investor a total financial venture to fund the development and as a result, it is not a very common structure on the market. As can be noted from the survey results, the Build Own Operate structure is the only structure which constitutes identical percentage in the both currently used and the developers' preference categories. The participants have indicated that the Build Own Operate structure is the easiest in terms of the hotel business operation.

“Build Own Operate provides the flexibility to operate your own business and property with your own judgment. Once you tie up with a management contract than it limits your control over the business.”

“Build Own Operate performs well, no conflict between the owner and manager”

“Build Own Operate provides a total control without having to go through another party”

There appears to be two important factors, the potential conflict, and the relationship between the hotel investor and the hotel manager, which drives the Build Own Operate structure. Participants who valued independence in business ranked the Build Own Operate structure as the best one. They argue that the structure provides them with the freedom to make decisions and control over their own investment without having to go through another party. The structure has been ranked as a favorite mainly by the participants who had over 20 years experience in the field, over 10 properties and total value of over \$81,000,000.

From the data obtained from the interviews and surveys, it is fair to state that the main reason the Build Own Operate structure is uncommon on the market is because of the financial investment required by the developers. However, some participants have also indicated that they would rather not use their own equity to fund such developments but use someone else's capital. As a result, the Build Own Operate structure may only suit some investors.

“The problem with Build Own Operate is that it requires total financial investment and fluctuation within the economic climate and interest rates, will affect it greatly in terms of producing a return on investment”

“The main disadvantage of Build Own Operate is that it is capital intensive structure”

It can be concluded that the Build Own Operate structure is capital intensive. As a result it has been ranked as not a very commonly used structure on the market. However, the structure provides benefits in terms of operation and control over investment. Hence it has been highly ranked as a favorable structure.

4.2.3. Joint Venture

As can be noted from the results of the survey above, the Joint Venture structure is an interesting one. In the survey, it was ranked as the least commonly used ownership structure (only 9% percent of the participants indicated that they use the JV structure). However it has also been ranked as one of the most favorable structures (29%) by the participants. As a result, the interview questions were written to reflect the findings and expand on the rationale behind.

As been discussed earlier, the Joint Venture structure is based on the principal that both the hotel investor and the management company invest into the real estate and share the ownership of the property and the profit of the business. The participants in the interviews have confirmed that the main reason the Joint Venture structure is uncommon on the market is because the management company (typically a hotel brand) is not interested in investing into the property as their expertise is in managing hotel properties rather than in real estate.

“The Joint Venture is a great structure in the long term as the investment and risk is spread between two parties with a common goal. Unfortunately not many management companies are interested in investing into the real estate.”

4.3 The financial factors influencing on the decision making of hotel

In order to determine the weight attached to the financial and non financial factors considered by the developers when determining the ownership structures associated with hotel developments, participants were asked in the questionnaire to rank the provided factors based on their experience and opinions. Once all the data from the questionnaires had been gathered, each factor was evaluated based on the ranking value attained by the participants. As a result, relative weight of importance assigned to the factors was based on the results obtained from the survey.

Significance	Factor	Weight of importance
1	The ability to raise capital in order to meet lending criteria	97%
2	Gross Operating Profit (GOP)	91%
3	Loan to Value ratio	89%
4	The capital value of the investment	88%
5	Land & construction costs	87.5%
6	The impact of the ownership structure on the medium term forecast return on investment (5 years)	86%
7	Reasonable guarantee of cashflow	84%
8	The impact of the ownership structure on the long term forecast return on investment (over 5 years)	81%
9	Current economic market	81%
10	Spread of financial risk	79%
11	Other management fees	79%
12	Forecast economic market	78%
13	Operator remuneration	75%
14	The dual role of property investment and hotel management	72%
15	Unsystematic risks (risks that cannot be controlled such as liquidity)	71%
16	The spread of building maintenance costs	63%

Figure 7 - Financial factors considered by developers when determining ownership and management structures

As can be noted from the table above, the ability to raise capital in order to meet lending criteria is the highest weighted factor (97%) which influences the determination of ownership structures in hotel developments. The gross operating profit is the second most important factor influencing the decision making of ownership structures in hotel developments with 91% rank of importance. The third most important factor is the loan to value ratio of the investment (89%). It can be concluded that the financial factors to do with the initiation and overall performance of the investment are rated the highest. It can also be concluded that most of the financial factors are ranked highly, with an average score of 81.3%.

4.3.1. The ability to raise capital in order to meet lending criteria

It has already been established that hotel developments are capital intensive due to the size, quality and services the property is to provide as a hotel business. As a result, the capital investment required by the developers in order to develop such properties is significant. Consequently, the ability to raise capital in order to meet the lending criteria is a crucial factor when it comes to the decision making of the appropriate ownership structure.

The participants in the interviews have indicated that apart from the Build Own Operate structure, where borrowing from the bank is not necessarily required, each development structure must comply and provide the required conditions imposed by the local trading banks. Such conditions typically include the pre-selling of the hotel units/apartments and a significant amount of deposit towards the loan in order to secure the loan.

“At the end of the day, any ownership structure is derived from the ability to meet the lending criteria imposed by the bank. It is that simple, if I don’t meet the criteria than I won’t be able to finance the development.”

As a result, the relationship between this factor and the Strata Title ownership structure is extremely strong. The underlying principal of the Strata Title structure is the ability to meet the lending criteria by pre-selling the units to both investors and residential buyers. Furthermore, by pre-selling the units, the developer generates sufficient deposit to secure the loan from the bank. This is the main reason why the Strata Title structure is the most commonly used structure on the hotel development market. From the developers' perspective, it is the best structure as it provides an easy access to develop a proposed hotel development.

“The Strata structure aligns with the ability to raise capital in order to meet the trading banks' lending criteria. It is also the less capital intensive structure and therefore is the most common structure.”

The relationship between the Strata Title structure and the ability to raise capital in order to meet lending criteria factor is naturally strong. It can be concluded that the commonly used Strata structure is influenced directly from the ability to raise capital in order to meet the lending criteria imposed by the local trading banks as this is the underlying principal of the structure itself.

4.3.2. Gross Operating Profit (GOP)

The gross operating profit measures the difference between the revenue generated from the hotel business and all the outgoings such as the services, staff expenses etc. An analysis of the probable gross operating profit is conducted at the initial feasibility study period prior to the commencement of a development. The gross operating profit factor provides an indication on the financial performance of the subject hotel business to the developers. Participants in the interviews have further clarified that the ratio can also indicate on the selling prices of the individual units as an investment and the extent to which units may be reduced to without incurring losses. As a result, the GOP is crucial factor in any hotel development.

“The gross operating profit reflects the efficiency with which a proposed development can produce.”

Ninety one percent is the extent to which the GOP has been ranked by the participants in the survey in terms of influence on the determination of developments’ ownership structures. It is the second most important factor after the ability to raise capital in order to meet the banks’ lending criteria. More specifically, the GOP can be indentified at the early stages of evaluating a potential development and as a result it determines whether to proceed with a proposed development or not.

“The financial performance is crucial as it is the net profit obtained being able to serve for the remuneration of all parties. It impacts directly on the decision making of whether it is viable or not to proceed with a proposed development”

Compared with the macroeconomic factors such as the forecasted economic market, unsystematic risks and other management fees, the GOP can be specifically identified. This is potentiality one of the reasons why the GOP factor is ranked higher than the other financial factors. But more specifically, the GOP provides a direct reflection to the viability of the development as well as the potential risk associated.

4.3.3. Loan to Value ratio

The loan to value ratio factors has scored 89% in terms of influence on the ownership structures by the participants in the survey. It is the third most important ranked financial factor which refers partially to the lending criteria imposed by the local trading banks. The ratio expresses the amount of a first mortgage lent as a percentage of the total value of a proposed hotel development. For example, if a developer wishes to borrow \$25mil towards a \$45mil hotel development, the loan to value ratio is $\$25,000,000/\$45,000,000$ or 55% loan to value ratio. The loan to value ratio is also one of the key risk factors that the trading banks and any other lenders assess when qualifying borrowers for a loan.

“The loan to value ratio factor is a significant one, the higher the ratio the more conservative the bank is.”

It also reflects the likelihood of a lender absorbing a loss in the foreclosure process thus increasing as the amount of equity decreases. As a result, as the loan to value ratio of a loan increases, the qualification guidelines for a loan become stricter. This can mean additional conditions to the loan such as personal guarantees, higher interest rates etc.

4.4 The non financial factors influencing on the decision making of hotel development ownership structures

The third research objective is to find the non-financial factors influencing the determination of the ownership structures associated with hotel developments. In order to establish the results for this objective, participants in the survey were asked to rank the non-financial based on weight of importance. The following data has been obtained:

Significance	Factor	Weight of importance
1	Contractual relationship with operator	70%
2	Potential conflict with operator	63%
3	Direct relationship with customers	63%
4	Stakeholders preferences	57%
5	The advantage of worldwide brand to operate the premises i.e. value of goodwill	55%
6	Willingness to assume hotel management responsibility	55%
7	Relationship of target property to current portfolio	53%
8	Segment diversification	53%
9	Independent assets management	37%

As can be noted from the above survey results, the contractual relationship with the hotel manager factor has been ranked as the most important factor (70%) from the non-financial factors provided. The potential conflict with the hotel manager and direct relationship with customers are the second highest weighted factors (63%). The least important non-financial factor to influence the determination of the hotel ownership and management structures is the independent assets management factor which achieved only 37% weight of importance by the participants. Overall, the non-financial factors have achieved an average of 52.6% weight of importance where it comes to influence the determination of hotel ownership and management structures. Compared with 81.3% average achieved by the financial factors, it can be concluded that the financial factors have much higher level of influence on the determination of the ownership and management structures of hotel investment.

4.4.1. Contractual relationship with the hotel operator

The contractual relationship between the hotel investor and the hotel operator is derived from the management contract which is an arrangement whereby the hotel investor contracts with a separate company, the hotel operator to run the hotel of his/her behalf. By doing so, the hotel investor retains limited control over the operation of the hotel business. The hotel operator runs the hotel on behalf of the investor for a fee which is specified in the terms negotiated with the investor.

“The negotiation process with the management company will influence on the ongoing performance of the business, therefore it vital to get it right.”

Participants have indicated that legal advice is vital at early stages of the establishment of the contractual relationship in order to avoid potential conflicts in the future. The contractual relationship between the two parties is based on the terms negotiated at the initiation of the development. Such terms aim to maximize the return on investment (ROI) for both the operator and the investor owner. The participants have indicated that the selection of hotel operator and the negotiation of the contract terms are both crucial to the ongoing success of the business. Therefore, the contractual relationship with the hotel operator is a crucial factor when determining the management structures of a hotel investment.

Different hotel management companies have different terms of agreement for owners. Therefore the hotel investor/owner has the ability to ‘shop around’ for operators. Participants have said that the general terms of contract are; operating fees, operators’ guarantees, performance measures, owner approval, capital expenditure, non-compete clause, dispute resolution and termination.

“The operating fees are often based on a base fee which is typically between 2% to 4% of total revenue. In addition to the base fee, the hotel operator can also get an incentive fee which is based on a percentage profit. The negotiation process will determine whether such incentive fee percentage is based from the Gross Operating Profit or Net Operating.”

The participants have also indicated that the operators’ guarantee term in the contract ensures that the hotel owner/investor will receive a certain level of profit. In case that the level of profit is not achieved by the hotel operator then he guarantees to make up for the difference. The performance measure is typically based on Room revenue per available room (RevPAR) of the subject hotel as a percentage of a mutually agreed benchmark. Lastly, an owner’s choice of operating company and the terms of the contract will determine the hotel’s long term performance and success.

4.4.2. Potential conflict with the hotel operator

The potential conflict with the hotel operator factor has been ranked highly (63%) in the survey as an influence on the decision making of ownership and management structures. The factor has direct correlation with the highest ranked factor which is the contractual relationship between with the hotel operator (70%). Both of the factors are associated with the relationship between the management and the hotel owner.

As been explained earlier, the relationship between the two parties is based on a contractual agreement which is aimed at maximizing the revenue for both of the parties during the operation of the hotel business. However, the participants in the interviews have confirmed that the parties have different objectives. From the owners' perspective, it is to generate the most profit after the deduction of all of the expenses. From the management company perspective, it is often to generate the most profit before the owner's net deduction. As a result, participants have said that at downturn, owners can see managers getting fees for running hotels, with no money flowing their way. Furthermore, while property owners might be unable to pay the difference off the property's debt, management fees stood in the first position, regardless of the property's financial performance.

“Getting the terms in contract right may mean it will eliminate disputes in the long run.”

The participants in the interviews have said that this again refers back to the contractual agreement terms negotiation which should be thought thoroughly. As a result, it is common to have clauses in contract for dispute resolution, performance reviews, termination and benchmarking.

4.5 Chapter Overview

This chapter reported on the findings extracted from the methodology practice employed for the purpose of this study. Results were obtained from the survey and interview findings. The data gathered has been presented under the three research objectives which are; the common ownership and management structure, the financial factors influencing on the determination of the ownership and management structures, and the non financial factors influencing the determination of the ownership and management structures.

The study has found the most commonly used structures in the New Zealand market is the Strata Title structure (29%) which essentially provides the hotel investor with the ability to pre-sell the hotel units prior to committing into the development. Participants in the study have indicated that the main advantage of the structure is that it enables the hotel investor an easy access to capital. In terms of management, the management contract is the commonly used structure. Participants have indicated that it is common to employ a specialized hotel management company in order to manage the property on their behalf.

The ability to raise capital in order to meet lending criteria factor has been ranked as the most important factor (97%) influencing the determination of the ownership structures. It can be concluded that the relationship between this factor and the Strata Title ownership structure is naturally strong. The second most important (91%) factor to influence on the ownership structures of hotel investment is the Gross Operating Profit (GOI), it essentially relates to the performance of the hotel as a business in terms of profitability.

The contractual relationship with the hotel operator factor has been ranked as the most important (70%) non-financial factor to influence on the determination of hotel investment. Following by the potential conflict with hotel operator (63%) and the direct relationship with customers factor (63%). It can be concluded that the relationship between the hotel investor and the hotel management company is vital to ongoing success and financial performance of the hotel as a business.

Lastly, it can be concluded that the financial factor has a much more significant influence on the determination of hotel ownership and management structures than the non-financial factors. The financial factors have achieved an average rank of 81.3% compared to the non-financial factors overall average rank of 52.6%.

5.0 CONCLUSION

5.1 Overview of the study

This study reported on the factors influencing the decision making of ownership and management structures in the hotel investment market in New Zealand. The literature on the subject matter has indicated that the common ownership structures in the hotel investment market are Strata Title, Build Own Operate, Joint Venture and Fractional Interest. Furthermore, the literature has also indicated that the management contract is the common management structure in hotel investments. In order to assess the local hotel investment market, the study employed a multi-method methodology practice. The study reported on the findings of a survey and interviews which were participating by local developers specialized in the hotel market. Furthermore, the findings of this study have indicated that the most common ownership structure in the New Zealand is the Strata Title, while the Joint Venture structure is most favorable structure. Furthermore, the study has indentified that the financial factors have higher influence (81.3%) on the decision making of ownership and management structures than the non-financial factors (52.6%).

5.2. Key findings

The findings of this study have indicated that most common ownership structure in the hotel investment market is the Strata Title. The structure is based on the principal that the hotel developer/investor pre-sells the hotel units in order to fund the development itself and meet the required lending criteria imposed by the local trading banks. This structure naturally relates to the highest ranked financial factor which is ‘the ability to raise funds in order to meet the required lending criteria’. The second highest ranked factor to influence the decision making of hotel ownership and management structures is the Gross Operating Income (GOI) which is a technique employed to measure the financial performance of the hotel business. The findings from this study indicate that the financial factors have higher influence on the decision making of ownership and management structures (81.3%) than the non-financial factors (52.6%).

The highest ranked non-financial factor to influence on the decision making of the ownership and management structures is ‘the contractual relationship with the hotel operator’. The factor relates to the countercultural agreement between the hotel investor and the hotel operator. The second highest non-financial factor to influence on the decision making of the ownership and management structures is the ‘potential conflict between with the hotel operator’. As a result, this study identifies the relationship between the hotel investor and the management company as the most important non-financial factor to influence on the decision making of ownership and management structures.

Newall (2006) conducted a similar study on hotel investment and have also found that the financial factors have higher influence on the decision making of hotel investment than non-financial factors. As a result, it is fair to state that the findings of this study support Newall (2006) judgment.

5.3 limitation of the study

There is a general lack of institutional support for the hotel investment sector of the property market. This means that existing literature is limited and is imperfect in the research. Another significant limitation to the study is that the New Zealand hotel investment industry is quite diminutive, resulting in limited study sample. It forms a limitation in terms of access to information and the number of participants.

5.4 Significance of the study

Only limited research is available globally on the hotel ownership structures while very little literature available locally. As a result, this research paper supplements the limited pool of current literature by presenting a theoretical conclusion which could be adopted by new developers/investors and academics interested in the hotel investment industry.

5.4. Future research areas

This section discusses recommendations for future research in terms of improving and replicating the findings of this study. From the findings of this study on the non-financial factors that influence the decision making of the ownership and management structures, it appears that the relationship between the hotel investor and hotel operator is critical. As a result, potential future research areas can explore into more depth the contractual relationship between the parties and its impact on the financial performance of a hotel as an investment.

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APPENDIX



Participant information form - Survey

My name is Antonia Krivosheev. I am currently enrolled in the Bachelor of Construction degree majoring in Property Development in the Department of Construction at Unitec Institute of Technology and seek your help in meeting the requirements of an Industry Project which forms part of this degree.

About this research

Given the stature of international tourism, hotel properties are an important property investment sector. The aim of this research is to assess common ownership structures associated with hotel investment and the influence of a range of financial and non financial factors on the decision making of the investment ownership structures.

I request your participation in a survey which is aimed at assessing your experience and opinions of the hotel development field. The survey outcome is to assist the research in assessing the hotel investment process and assist hotel investors with the decision making of ownership structures associated with the hotel investment market.

Confidentiality

Neither you nor your organization will be identified in the project report. The data collected will be seen only by the researcher and supervisor of the project. All personally identifying features will be removed from any published material. Your participation and contribution will be strictly confidential.

You are free to ask me not to use any of the information you have given, and you can, if you wish, ask to see the report before it is submitted for examination.

[Data resulting from this project may be used, with your permission, to contribute to conference or academic journal papers based on this research]

Further information

I hope that you will agree to take part and that you will find your involvement interesting. If you have any queries about the research, you may contact me:

Antonia Krivoshev

Email: tonia.krivo@gmail.com

Mobile: 022-021-1230



Participant information form - Interview

My name is Antonia Krivosheev. I am currently enrolled in the Bachelor of Construction degree majoring in Property Development in the Department of Construction at Unitec Institute of Technology and seek your help in meeting the requirements of an Industry Project which forms part of this degree.

About this research

Given the stature of international tourism, hotel properties are an important property investment sector. The aim of this research is to assess common ownership structures associated with hotel investment and the influence of a range of financial and non financial factors on the decision making of the investment ownership structures.

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Confidentiality

Neither you nor your organization will be identified in the project report. The data collected will be seen only by the researcher and supervisor of the project. All personally identifying features will be removed from any published material. Your participation and contribution will be strictly confidential.

You are free to ask me not to use any of the information you have given, and you can, if you wish, ask to see the report before it is submitted for examination.

[Data resulting from this project may be used, with your permission, to contribute to conference or academic journal papers based on this research]

Further information

I hope that you will agree to take part and that you will find your involvement interesting. If you have any queries about the research, you may contact me:

Antonia Krivoshev

Email: tonia.krivo@gmail.com

Mobile: 022-021-1230



Participant consent form

Project title: What are the factors developers consider when determining ownership and management structures in a 4-5 star hotel investments?

I have seen the information sheet for this project and have had the opportunity to discuss the project with the researcher involved. I understand that taking part in this project is voluntary and that I may withdraw myself or any information I have provided from the project at any time without penalty.

I understand that my participation in this project is confidential and no material that could identify me or my organisation will be used in any reports on this project. I understand that I may read the completed research report if I wish.

I also understand that the information I provide will be stored securely at Unitec for a period of 5 years. I agree that data I provide in this project may be used in the resulting research report *[and any subsequent associated publications]*.

I have had enough time to consider whether I want to take part and I give my consent to be involved in this project.

Participant Signature: *Date:*

Project Researcher: *Date:*

UREC REGISTRATION NUMBER: 2009-937

This study has been approved by the UNITEC Research Ethics Committee from 2 March 2009 to 31 December 2011. If you have any complaints or reservations about the ethical conduct of this research, you may contact the Committee through the UREC Secretary (ph: 09 815-4321 ext 7248). Any issues you raise will be treated in confidence and investigated fully, and you will be informed of the outcome.

Survey

Interview Questions