



Exclusive interview by James Wilkinson
Hotel Management, HM October 2016

Phil, tell us about the growth of Pro-invest to date and what projects you have coming up.

For those not familiar with Pro-invest Group, I think it's worth mentioning that we're somewhat unique in this market by being a private equity and real estate investment firm with in-house development, asset management and hotel management expertise.

We launched our Australian Hospitality Opportunity (AHO) Fund in 2013 to develop, own and operate a portfolio of up to 15 Holiday Inn Express hotels under a Master Development Agreement with IHG. All our projects are being developed by Pro-invest Developments and each hotel is operated by Pro-invest Hotels Group under a franchise agreement with IHG.

We opened our first Holiday Inn Express hotel in Sydney's Macquarie Park in March and have our second Holiday Inn Express in Brisbane's Spring Hill scheduled to open towards the end of next January. Our Holiday Inn Express Adelaide in Hindley Street is under construction and we've lodged DAs for hotels in Melbourne Southbank and Newcastle. So in total, our portfolio and development pipeline comprises five hotels with 1,178 rooms. All going well, we ought to be in a position to announce our 6th hotel deal within the next few months.

Outside your committed projects, where else would you like to develop new hotels in Australia and New Zealand?

Without disclosing our complete target list, we'd like to be located in all first-tier capital cities and other major leisure markets where market demand and RevPAR support exists; but only as long as we're able to meet our target investment hurdle rates. In addition to hotel at Macquarie Park, we'd also like to be in the Sydney CBD and other suburban locations including Parramatta. We're also keen to add a couple of more hotels in and around Melbourne and secure sites in New Zealand's major cities.

Would you look at developing projects further afield around the world?

Currently our focus is very much on expanding in Australia and New Zealand. However, there's no reason why we couldn't replicate our successful model in other markets further afield. Obviously, important factors to consider would include time-to-market and the potential headroom for unit growth in specific countries and resourcing ourselves appropriately.

How easy is it to build new hotels in Australia at present and what challenges are you finding in the market as an investor?

From an investment perspective, the development of new hotels has historically been notoriously difficult due to a number of factors including planning restrictions, relatively high land and construction costs, high labour costs and relatively low growth in hotel room rates.

Exacerbating these challenges is that some sites are difficult to acquire as their highest and best use often tends to favour residential development over hotel use.

Why the Holiday Inn Express brand with IHG and why the select service agreement?

Our CEO Ron Barrott developed a number of IHG branded hotels in Europe and later in the United Arab Emirates. He led a UK-based company which partnered with IHG in the late 1990s and brought the Holiday Inn Express brand from the US to the UK. During my time at IHG as VP Development based in Dubai and then Singapore, I was also involved in signing Holiday Inn Express deals in South Africa, the United Arab Emirates, parts of Asia and Australia. Many senior members of our hotels and development team have also previously worked for IHG; so I guess it's fair to say that we've got a quite a bit of experience working with IHG and this great brand and feel very privileged to have launched Holiday Inn Express here in Australia in partnership with them.

So why the select service segment? Because we think it's one of the most robust and profitable hotel segments to invest in on a risk adjusted basis. It is segment that is highly efficient, addresses the needs of the short stay frequent traveler, and benefits from strong cash flow/low CapEx requirements compared to developing traditional full service hotels. Proof of this segment's success lies in the sheer weight of the brands system size and pipeline. There are currently more than 2,400 Holiday Inn Express hotels operating today out of 5,070 IHG hotels globally. With an additional pipeline of 650 hotels, Holiday Inn Express is clearly IHG's fastest growing brand where owners are investing their money.

Would you look at any other segments going forward?

I really like the lifestyle and branded boutique hotel segments. They both provide the ability to maximize ADR due to advantageous pricing elasticity with the opportunity to implement certain aspects of the select service model we've come to embrace. I really think there's an opportunity to partner with great brands and introduce local F&B concepts that provide guests something different and 'local'. A hotel experience with social spaces created to be immersive, authentic, fun and memorable.

How has franchising worked for you and why did you do down this path?

Just as the Holiday Inn Express brand is designed to provide guests with “everything they need and nothing they don’t”, franchising gives us some flexibility in determining what we need from a franchisor and what we don’t require. Having established our own hotel management company, we’ve created an operating platform using the latest in cloud-based technology and operating systems combined with the added benefits of partnering with a world class hotel group such as IHG which provides us the best-in-class distribution systems, revenue management, guest analytics and other diagnostic tools as well as a strong guest loyalty program. A huge benefit of franchising is that we have an in-house team that is fully dedicated to the development, ownership and operation of each hotel. We literally live and breathe our hotel product every day. Everything we do throughout the design, development and operational phase of our hotels is about ‘engaging efficiency’. We’ve adopted a philosophy of challenging traditional hotel thinking and questioning the way things have always been done. Franchising has led us to create an efficient hotel design and operating model enabling us to optimise guest satisfaction, net operating profit and increase hotel asset value for our investors.

You personally procure a lot of products and services for the properties...tell us about that?

We liaise directly with our consultant teams, interior designer and FF&E procurement consultants to determine the best methods of procuring IT, operating systems, FF&E as well as operating supplies and equipment. The fact that we’re rolling out a standardised room product on a portfolio basis provides some efficiencies in our supply chain in terms of production and delivery timings, as well as pricing advantages. We also work with our interior designer and furniture manufacturers to review case goods and furniture items to optimise their design in relation to production cost, durability and ease of maintenance/replacement. Unlike many other property developers, we have the advantage of being able to tap into our hotel development and operational expertise, which coupled with guest feedback enables us to determine what works; what works; what hasn’t; and tweak our model accordingly.

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**PHIL KASSELIS, Managing Director,
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