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GUEST COLUMN

European hotel investors hiring for growth

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With record levels of tourists visiting Europe from China, strong year-on-year deals growth in many European markets and demand generally outstripping supply, its unsurprising that we're seeing most facets of the hospitality industry enjoying vigorous growth. Ferguson Partners Europe is increasingly active within this market and witnessing growing demand for talented senior executives across all hospitality functions with particularly intense competition for top performers in development, asset management and investment. We have noted a number of trends emerging in our searches for top level employees. Overall, there's greater emphasis on hiring leadership talent that can help an organisation define itself over the next 5-10 years. Ferguson Partners has seen significant recruiting for growth, with recent activity strongly biased towards development.

Whatever a brand's positioning, tapping vigorous growth involves one of four routes, namely management contracts, franchising, leasing or, to a lesser but growing extent, the use of balance sheet. The obvious advantage of this route is the greater certainty it brings to the outcome of a development pipeline in an increasingly competitive marketplace. Access to investable capital gives flexibility to secure developments or projects of significant complexity where securing equity partners may be difficult. Based on experience with global brands we are partnering with, there's gathering momentum in terms of brands utilising their own capital to secure deals to increase portfolio size and market share. In many cases, the use of balance-sheet oriented structures is a quick-fix solution to secure an asset which, once developed or repositioned into the optimum format and specification for the brand, can be exited with a new management contract or franchise agreement in place. Such short-hold investments typically secure a trophy building intended as a flagship first asset for a new brand or to springboard a new concept launch. As growth strategies shift from management contracts towards a hybrid structure incorporating an element of balance sheet investing, it can place strain on organisational structures. Based on dialogue with senior developers, the majority aspire to a broader role incorporating balance sheet investing, but relatively few have significant relevant experience, so the challenge is to locate talent with broader functional skills.

With growing demand for top quality, financially sophisticated brand developers, forward-thinking brands are revisiting their compensation structures for star performers, and increasingly employing long-term incentive plans linked to profitability rather than fee revenue generation. Our analysis of compensation structures at the most senior end of the development talent pool shows equity as an increasingly large percentage of the mix - up to 40% of total reward. This represents a leap from the historical norm of 20%-30%. A combination of annual and one-off performance-driven equity grants, normally with a four year vesting schedule, puts golden handcuffs on the top deal makers. This necessitates a creative approach to sourcing attractable talent, often from less exploited targets such as the investment teams of opportunistic private equity firms investing in hospitality, where executives have often worked for a leading hotel brand, have owner relationships, are highly transactional by nature and can structure a contract and negotiate a deal. Another worthwhile target can be the smaller brands where senior developers, in a flatter structure, are involved in all aspects of sourcing, due diligence and execution. Although the brand developer's goal is ultimately to secure the management contract or franchise agreement on the most favourable terms, that is only part of the equation. The best developers understand all aspects of a hotel's functionality, can enhance returns by integrating development and acquisitions functions with asset management and operations and can underwrite both value creation and the associated risks from a returns perspective. Such individuals are by no means easy to find, but Ferguson Partners is proven in its ability to identify and secure such talent. ■ **eba**

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