ENABLING PRIVATE SECTOR-LED TOURISM GROWTH

From Potential to Capital
Unlocking Tourism Investment

Speaker Name

Presented by: John Perrottet & Sara Currie

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- Understanding tourism investors – how do they approach tourism assets?
- Understanding risk
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- Successful approaches to attracting tourism investment

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Understanding Tourism Investment

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Understanding Tourism Investment

Building a destination

The fundamental requirements of a tourism destination are:

Accessibility	• Airlift / international carriers from key source markets • Visa access
Attractions | Activities	• Natural (national parks, world heritage sites) • Products (scuba diving, beach, adventure, culture)
Infrastructure	• Roads, ports, airports, power, water • Service providers (accommodation, transport, restaurant, tour operators etc.)
Ancillary	• Banks, telecommunications • Safety, medical, other support systems

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Building a destination

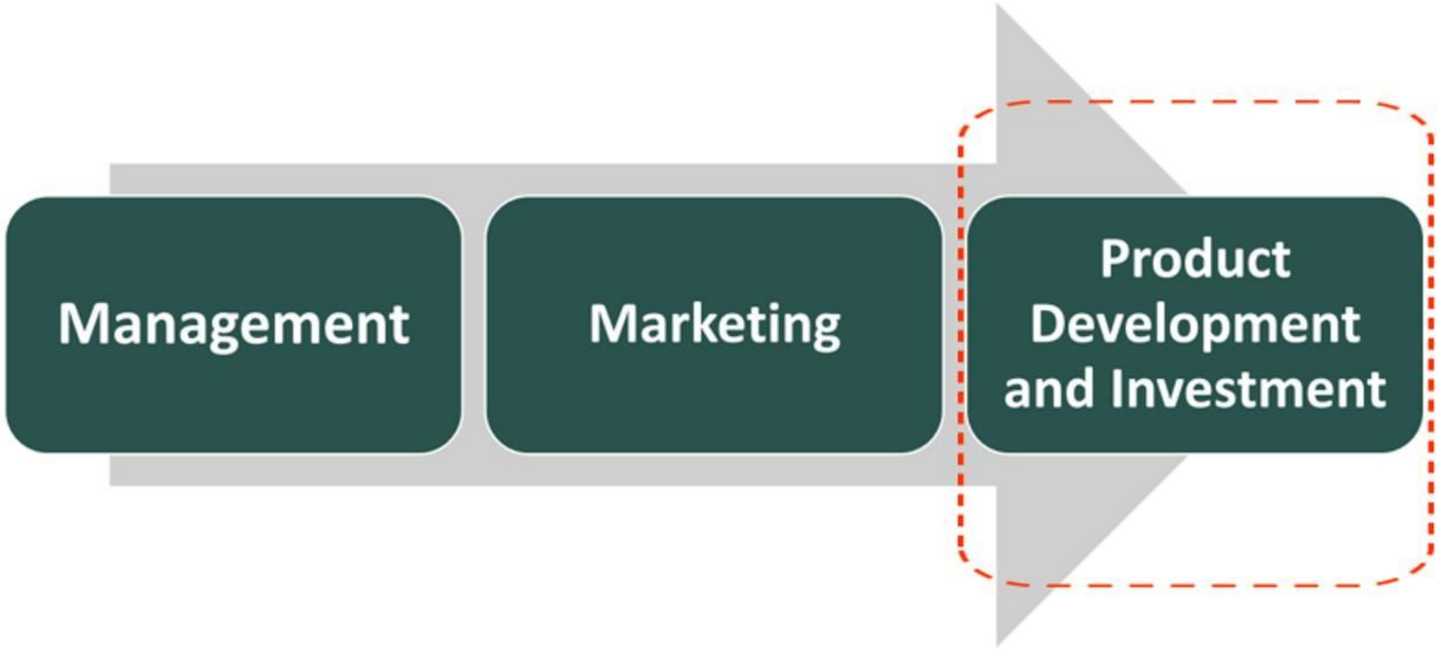
- ✓ Clearly defined **points of differentiation** – to distance the destination from competitors
- ✓ Creation of a '**promise**' that frames the destination experience
- ✓ Improved **image** as new brand initiatives revitalize the destination

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Building a destination

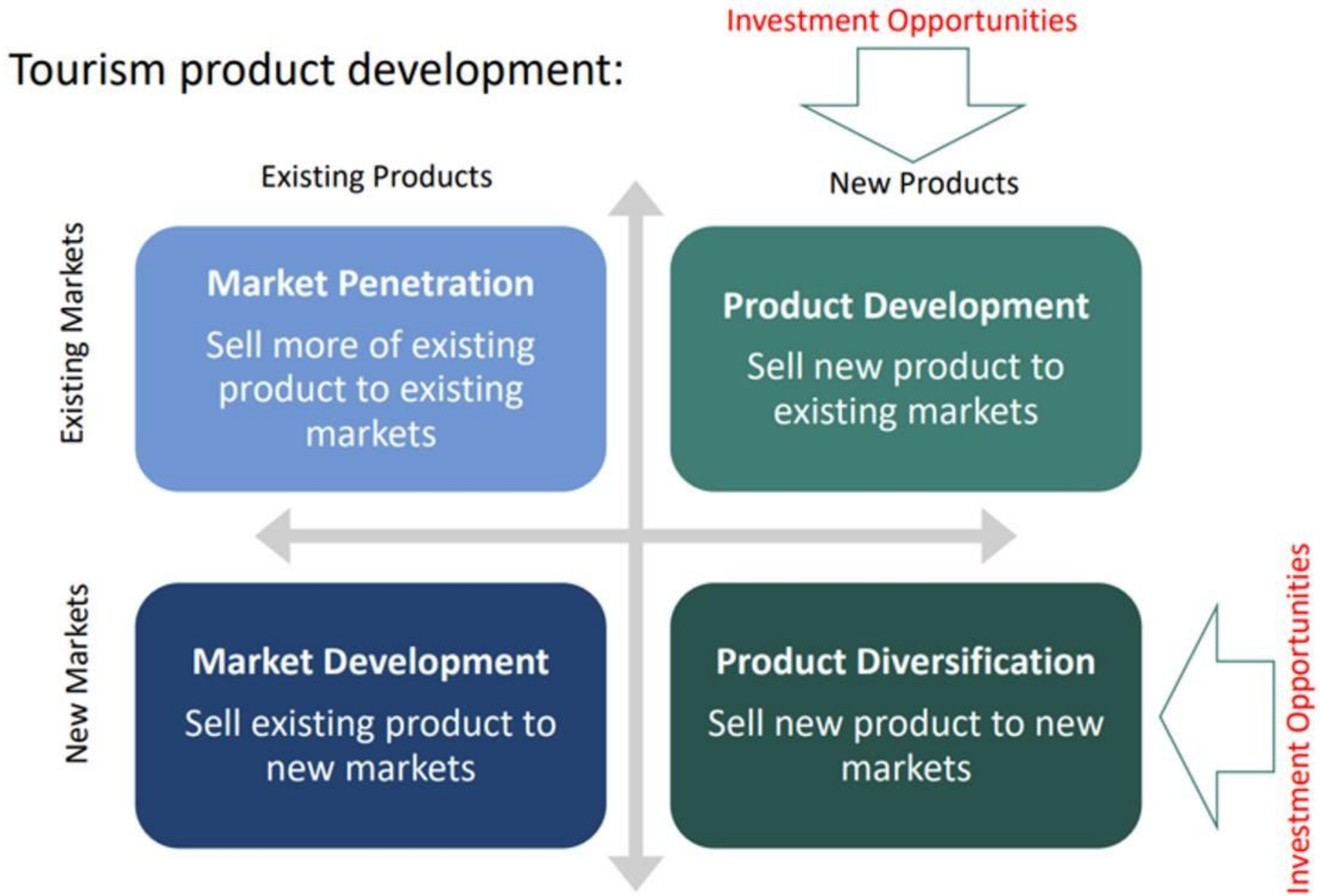
Key tourism destination objectives:



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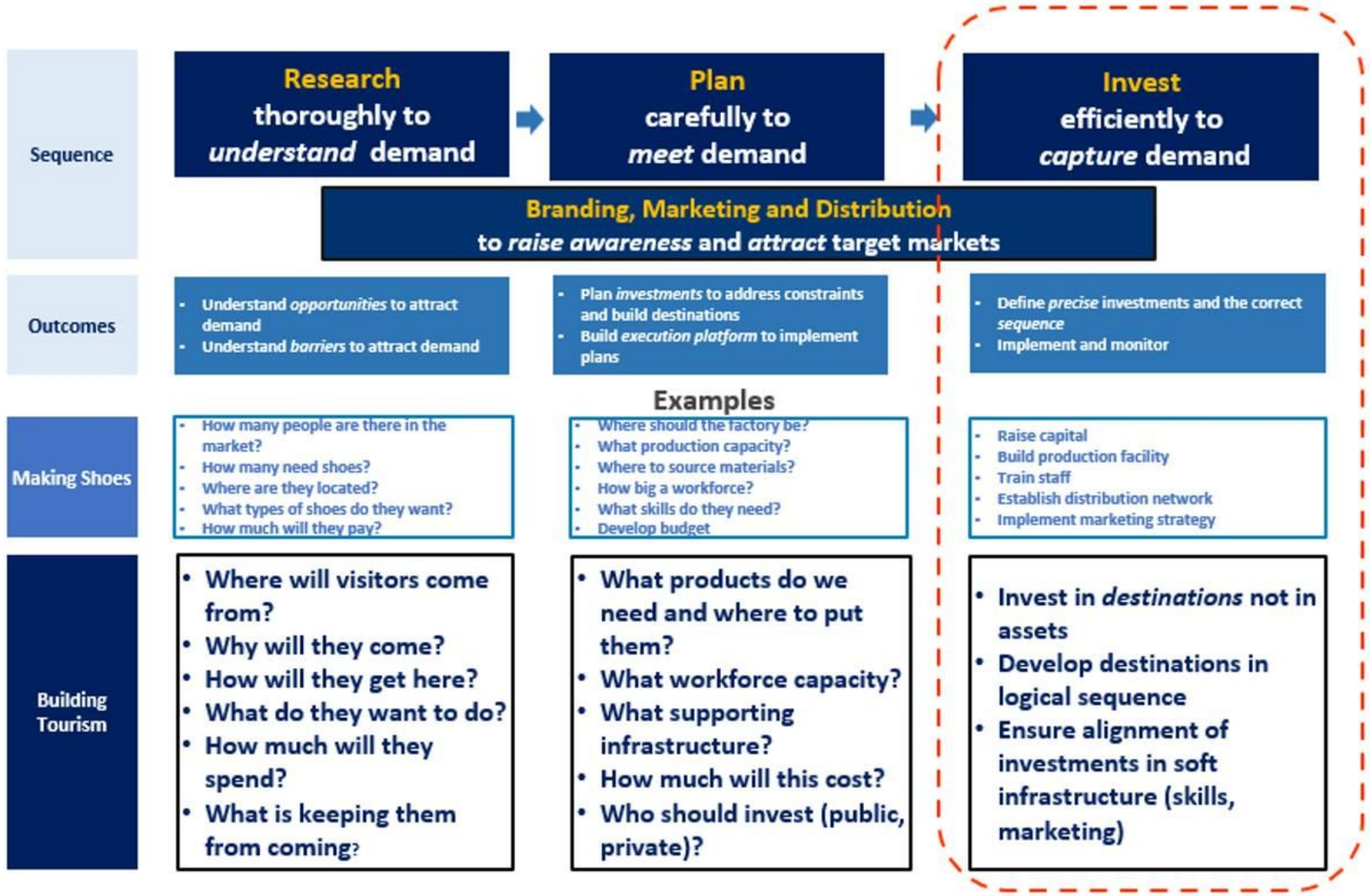
Tourism development should be led by demand and follow a logical sequence



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Tourism development should be led by demand and follow a logical sequence



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Understanding Tourism Transactions

Tourism *investments* are different	Tourism *transactions* are complex
Property assets	High cost
High but volatile cash flows	Force majeure
Earnings lead time	Multiple players
Difficult to manage	Several jurisdictions
High development impact	Complex documentation
Low but conspicuous environmental and social impacts	Getting money into and out of the project

Tourism investments are *high risk*

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Understanding Tourism Transactions

International nature of funds flows	Tourism investments involve…..
Liquid	Stable environment
Borderless	Long term finance
Fickle	Patient capital
Fast Moving	Close supervision
Earnings vs Capital Growth	Unclear capital growth
Exit Mechanism	Unclear exit pathway

Attracting tourism investment requires a *specialized approach*

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Understanding Tourism Transactions

Barriers to investment - thinking like an investor

What conditions impact my business?

- Things that impact the top line – capacity to earn revenue
  - conditions impacting demand – the number of people coming, the prices they pay, the range of activities they engage in, how long they stay
- Things that impact the bottom line - cost of inputs
  - labor, food and beverage, construction and equipment, maintenance, import costs, financing charges, energy charges
- Things that impact convenience - policies and processes
  - government actions and behaviors which impact how business is done and the cost of doing business – licenses, approvals
- Things that impact risk - security of my investment
  - currency volatility, political stability, capital repatriation

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Understanding Tourism Investment Risk

Thinking like an investor

Investment Drivers
Economic Climate and Cost and Convenience of Travel

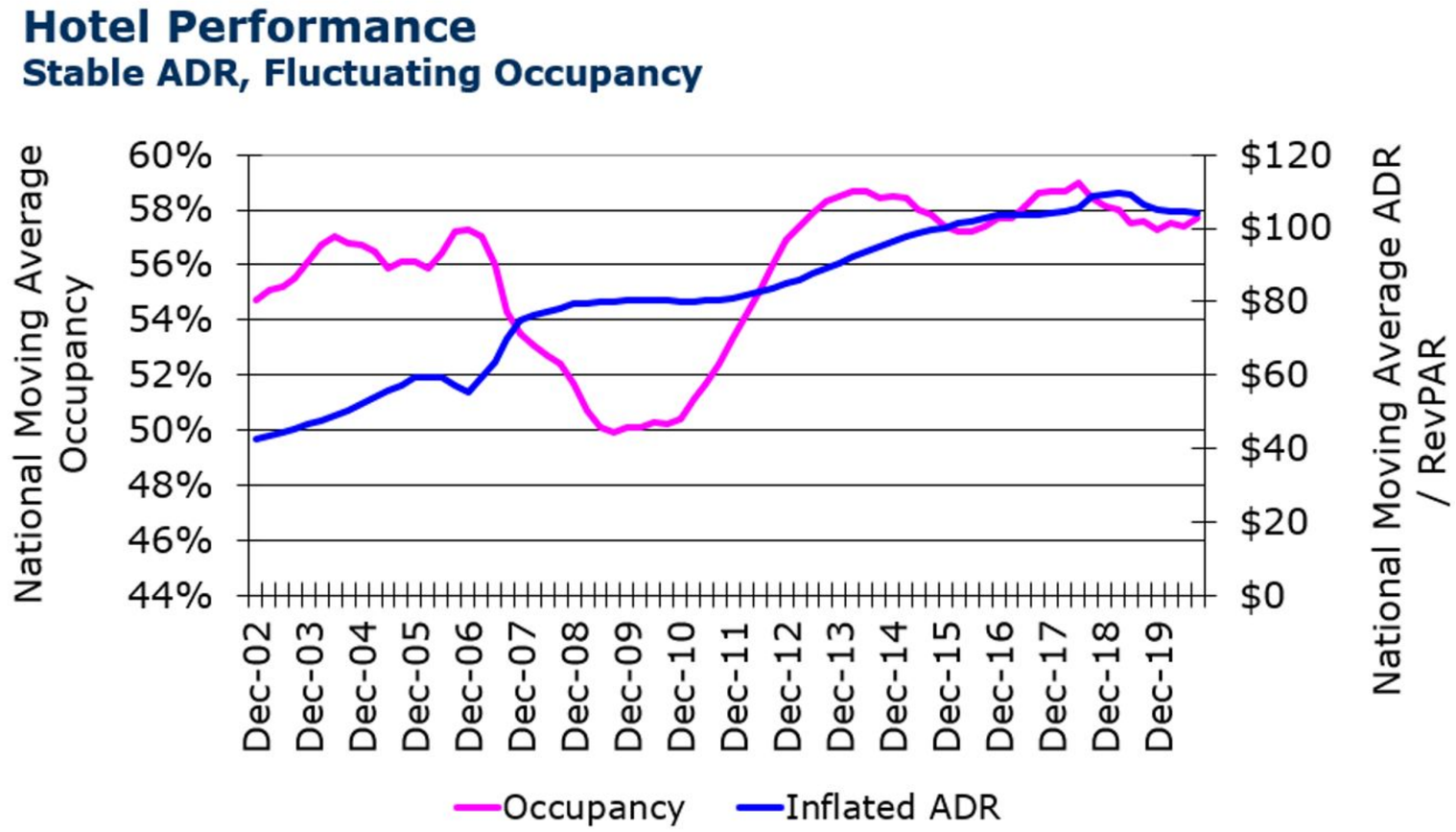
- Economic Climate
- Cost and Convenience
  - Flight costs
  - Travel taxes
  - Airport charges
  - Visa cost and convenience



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Thinking like an investor

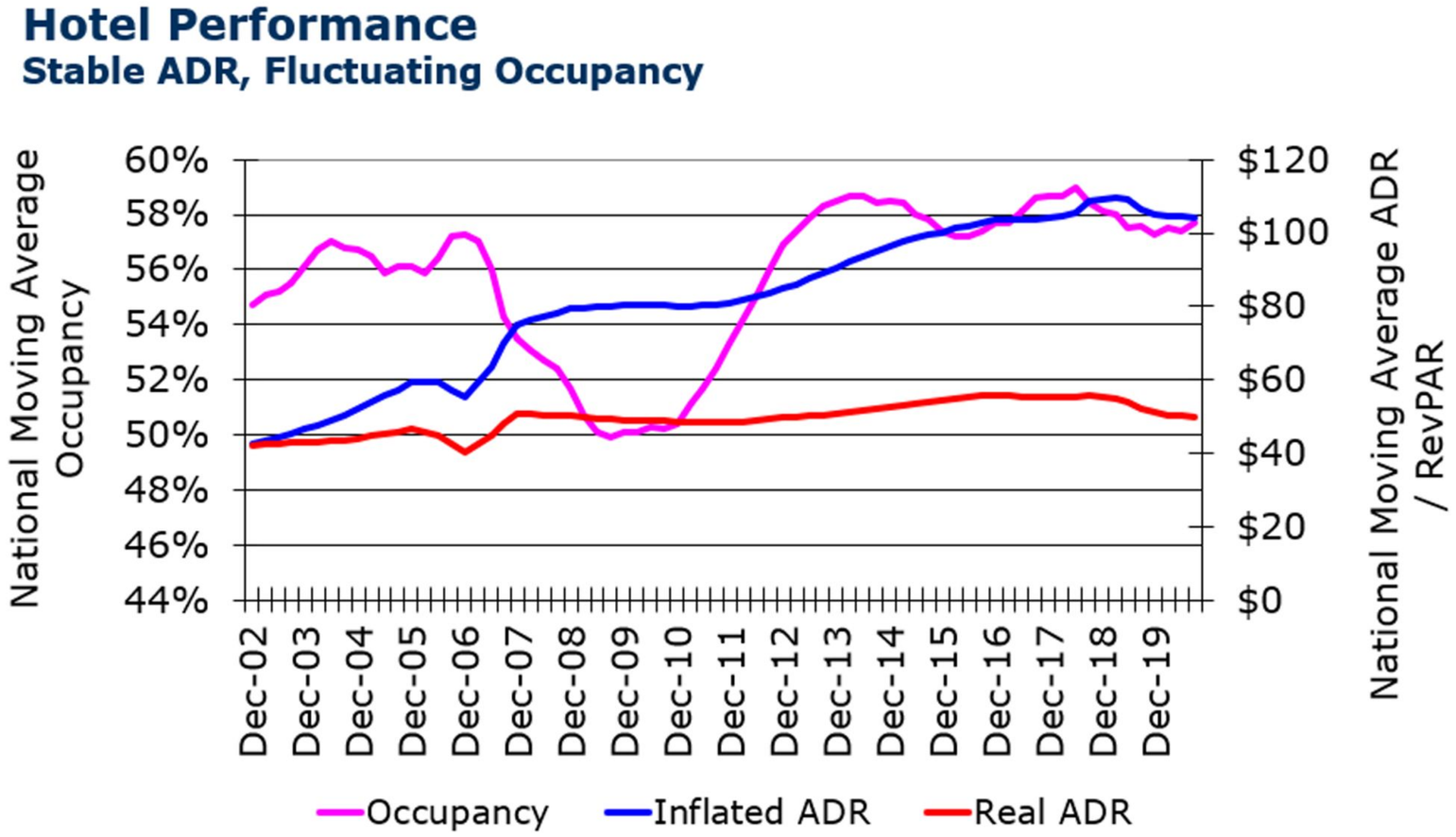


Source: NBS; Jones Lang LaSalle Hotels

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Thinking like an investor

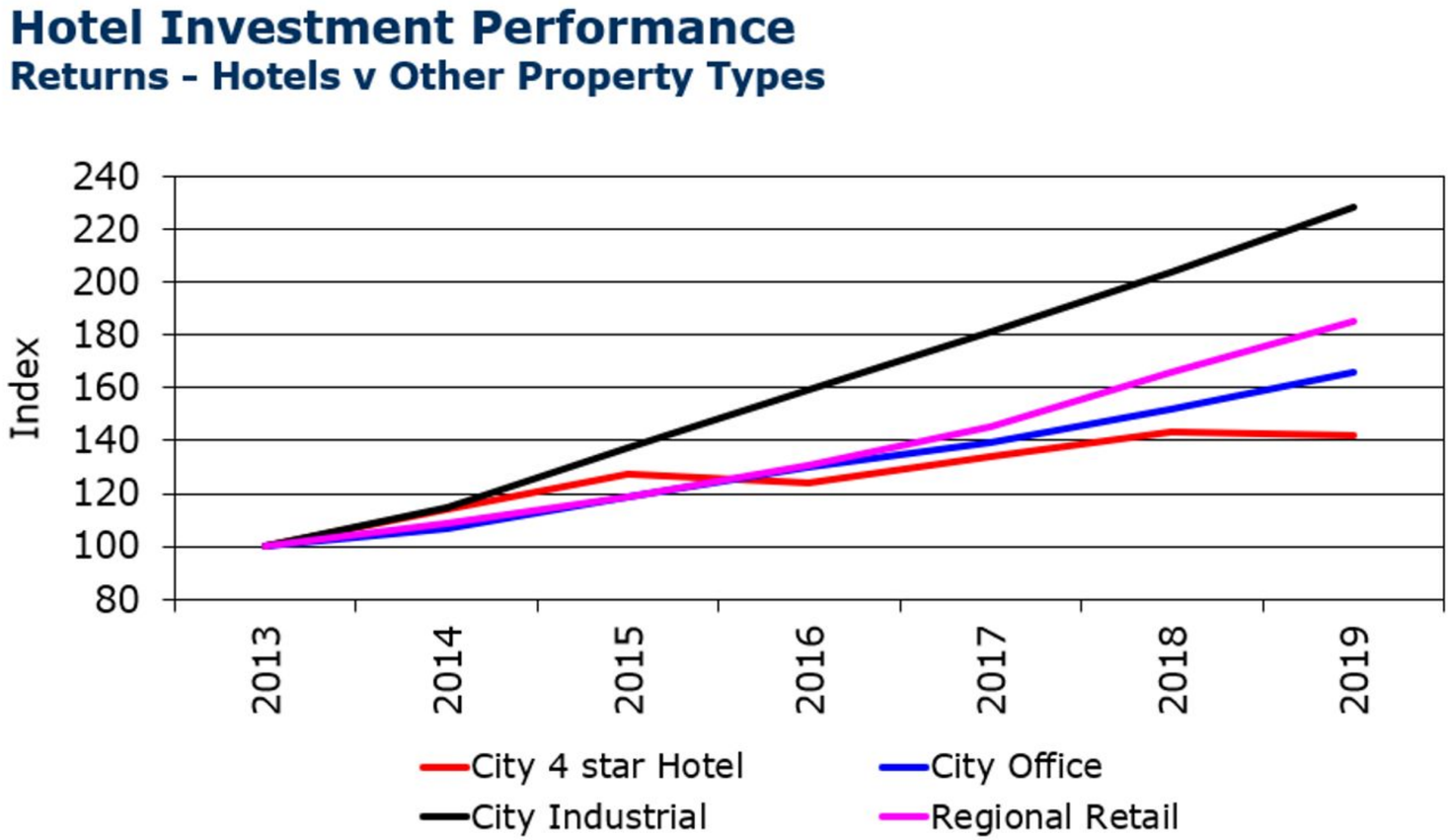


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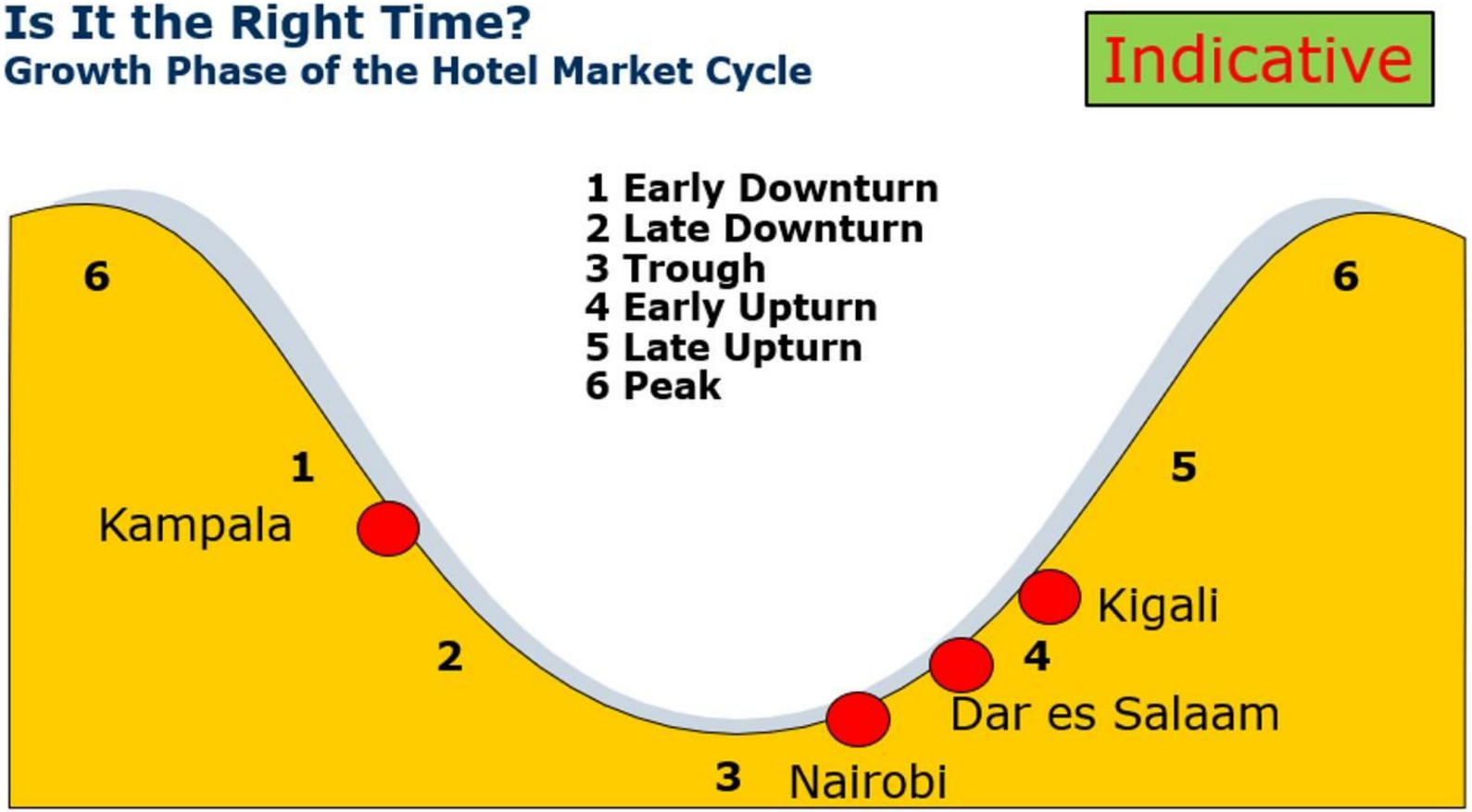


Source: PCD

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Thinking like an investor



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Thinking like an investor

Financing Challenges

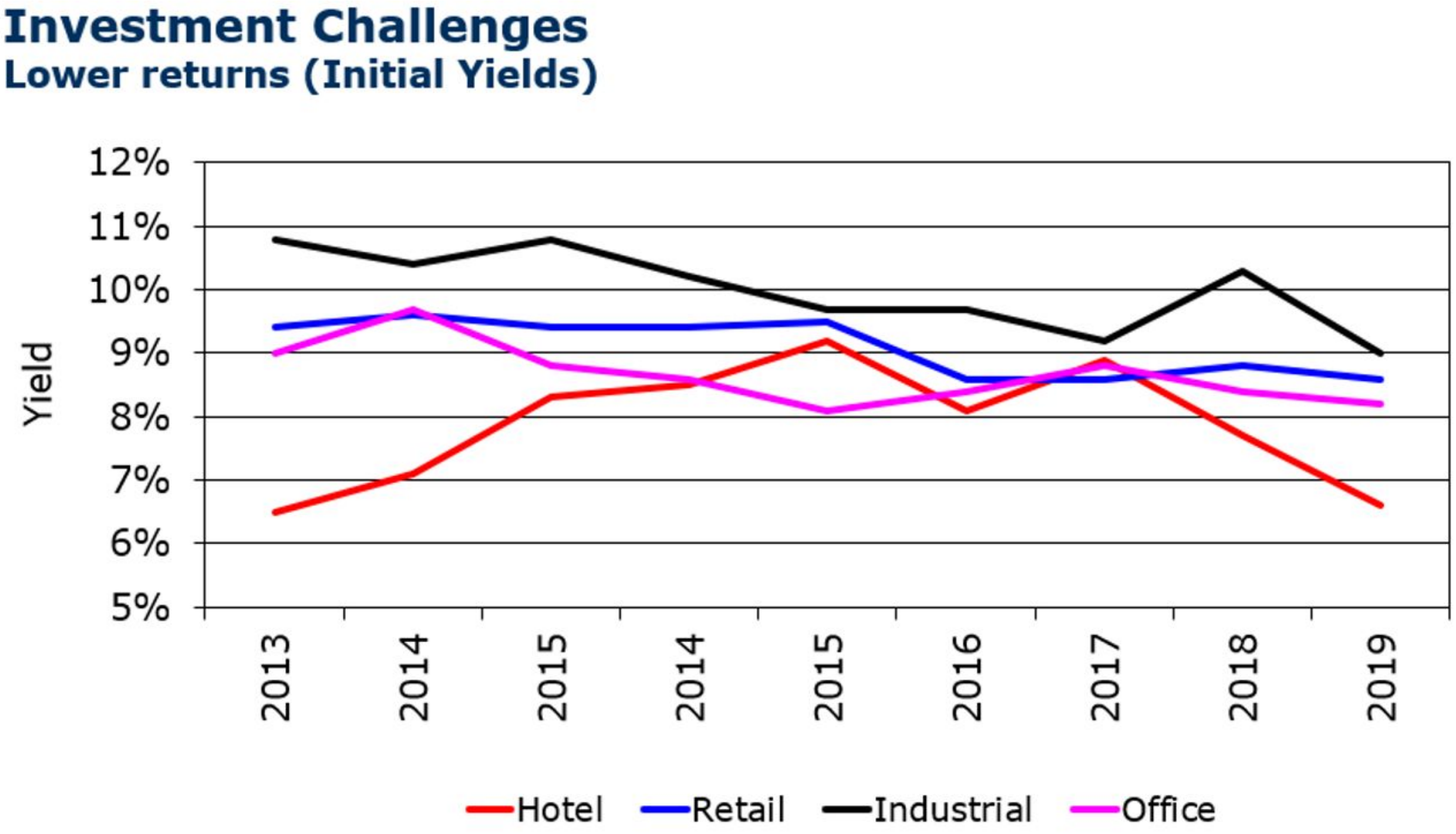
- Fragmented industry
- Specialised industry
- Chequered history
- Questionable developments
- Volatility
- Returns not commensurate with risk



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Understanding Tourism Investment Risk

Thinking like an investor



Source: Jones Lang LaSalle

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Thinking like an investor – Australia Case Study

Hotel Investment Performance
Hotel Specific Listed Vehicles - Australia

- Entered the market at the peak of the cycle in late 1990s
- BT Hotel Group and TAHL delisted, ATG merged with GHG
- Disappointing performance for remaining vehicles
  - 5 yr return of -14.0% for GHG
  - 5 yr return of 3.5% for Thakral
- Pressure to distribute all income – little left for required capital expenditure



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Understanding Tourism Investment Risk

Thinking like an investor

Participant exercise – assessing risk

Instructions:

- Your board is considering an investment in a hotel in Ulaanbaatar
- You must present to the board on the risks of this investment
- Identify your top 3 risks and how they could be mitigated
- Be ready to explain your key risks to the group
- 5 mins preparation, 5 mins discussion

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Understanding Tourism Investors

Why Invest In Tourism?

- Who is investing – sponsor vs partners
- Access to cash
- Trophy assets
- Secure a construction contract
- Relationship to other businesses
- Political glory
- Fashion
- "I can do it better"
- Access to an expense account
- Secure a place of entertainment

Understanding who is investing and why

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Understanding Tourism Investors

Who are tourism investors?

1. **Investment funds/private equity funds** - make investments into real estate or tourism companies
2. **Hotel owners –** private individuals or companies with direct equity in single or multiple assets
3. **Hotel operators** - manage and operate hotels; may also hold equity in hotels depending on the strategy of the company
4. **Real estate investment trusts (REITs)** - own, and in some cases operate, income-producing commercial real estate including hotels
5. **Property developers/constructors** - build and sometimes own hotels which are operated by management companies
6. **Institutional investors** (e.g. pension and mutual funds) - look for M&A deals and investments into asset classes including hotels through funds or other platforms; traditionally focused on higher end hotels, but also now select-service hotels

Investors are often invisible

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Understanding Tourism Investors

Type and size of investments by asset class

Investor category	Type of project	Project size | Priority
Domestic Individual / small company	Guesthouse, attraction (tuk tuk racing / Zipline), travel company, restaurant / coffee shop	〈 US$ 1 million Low priority
Domestic Diversified, tourism investment / management company	Hotel, resort, marina, large attraction (water theme park)	US$ 1 – 50 million High priority
Foreign Individual / small company	Boutique hotel, attraction (canopy walkway, gorge lift), activity center	US$ 1 – 5 million Medium priority
Foreign Hotel specific group	3 to 5 star hotels	US$ 20 – 100+ million High priority
Foreign Private equity funds / developers	Hotels, mixed-use developments, transport (tourist train), MICE facilities, resorts, large attractions (theme parks)	US$ 50 – 200+ million High priority

Key Trend
Domestic and regional tourism / hotel development companies are more likely to invest with regional and/or global operators

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Understanding Tourism Investors

What are investors looking for?

Consistent risk-adjusted returns

Market growth

Capital growth

Capacity to **manage risks**

- Sovereign
- Market
- Operational
- Financing

Capacity to realize returns

Predictable policy environment



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Structuring Tourism Investments

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Structuring Tourism Investments

Distributing the risk

Decreasing risk

Equity Partners

- Fund managers such as Provident Funds, Unit Trusts Special Investment Vehicles
- Multi-national agencies such as EIB, ADB, IDB, IFC
- Professional equity investors
  - Mezzanine debt
  - RPF's, convertible notes

Development Banks

- Greater appetite for greenfield developments
- Lower equity, circa 35% of TPC
- Special loan funds
- Government pays cost of loan subsidies and certain guarantee provisions

Commercial Banks

- Short term lending – 5 years
- 50-55% loan to value
- 70% development cost
- Property security

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Structuring Tourism Investments

Managing Construction Risk

Will the project be built on time and on budget?

- Project Team
- Guaranteed maximum price construction contract
- Contractual obligation to complete
- Construction budget reviewed/confirmed by independent quantity surveyor
- Quality contractor with capacity to raise performance bond
- Draw downs on a cost-to complete basis
- Sufficient contingency – 10% of total project cost
- Additional financial capacity

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Structuring Tourism Investments

Distributing the risk

Case Study – 20 room boutique resort & spa - Samoa

Participant	Funding Share	Instrument	Structure	Risk exposure
Equity				
Sponsor/investors	20%	Ordinary shares	Cash and land value	Full exposure
Partners	5%	Ordinary shares	Goods and materials	Full exposure
Mezzanine				
Quasi-equity (IFC)	25%	Preference shares	Redeemable Cumulative Convertible	Unsecured 8% fixed dividend Step in rights Management agreement*
Debt				
Commercial debt (DBS)	50%	P&I loan	First mortgage	Full security over land and assets Directors' guarantees

* Separate management company and management agreement established to separate sponsor roles as directors, shareholders and managers

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Sharing Risk Between Public & Private Sectors

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Public Private Risk Sharing

PLACEHOLDER

ADB PPP Presentation (15 mins)

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What investors need to know

Why should I consider investing in this country?

Which locations are open for investment?

What specific opportunities are available for investment?

What level of investment is required for these opportunities?

What returns should I expect?

How long will my money be tied up?

How do I get my money into the project and how do I get it out?

What risks are involved?

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What investors do **not** need to know

How beautiful the beach is

How friendly the people are

How vibrant the night life is

How rich the culture is

How good the food is

Investors are not tourists

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The tourism destination investment strategy – the key tool

- Communicate to key audiences
- Set clear goals
- Ensure efficient use of resources
- Mobilize and allocate resources
- Assign responsibilities
- Establish accountabilities
- Ensure actions are focused on goals
- Measure and monitor performance
- Guide the investment outreach plan

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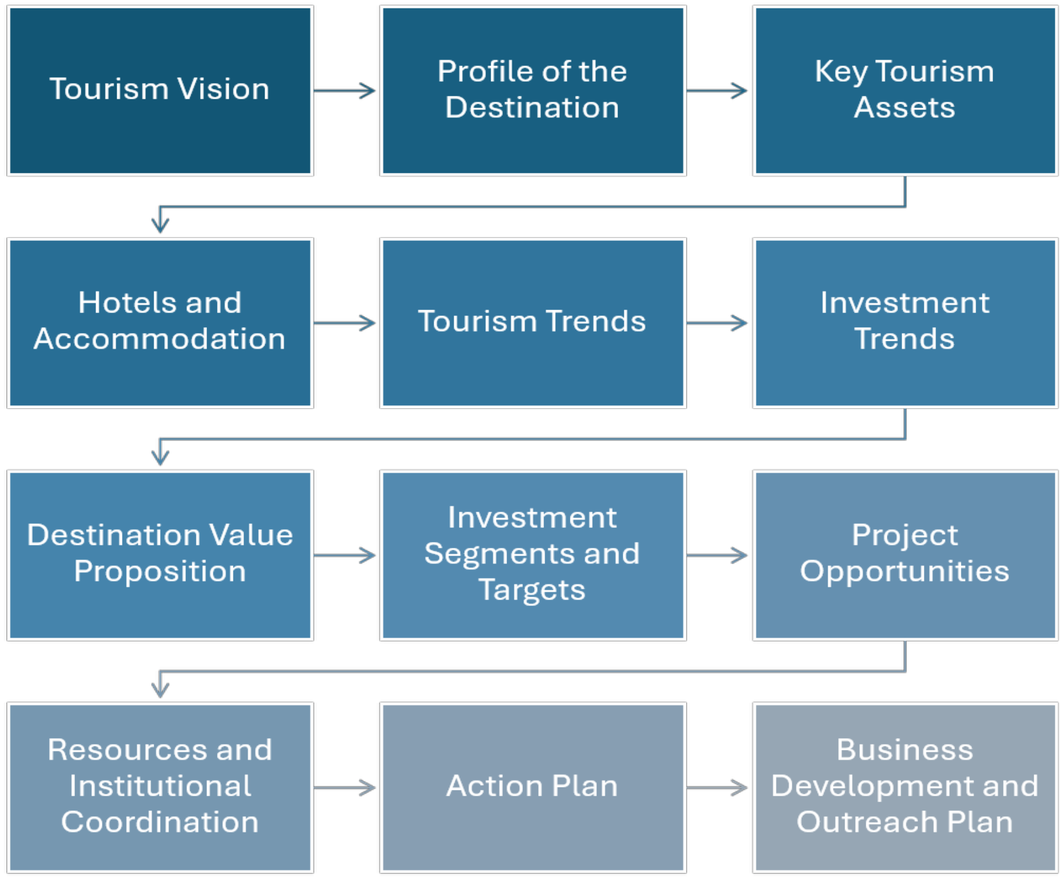
The tourism destination investment strategy – key audiences

- Policy makers
- Agency management and investment staff
- Contractors and advisors
- Other collaborating agencies
- Local tourism stakeholders
- Prospective investors

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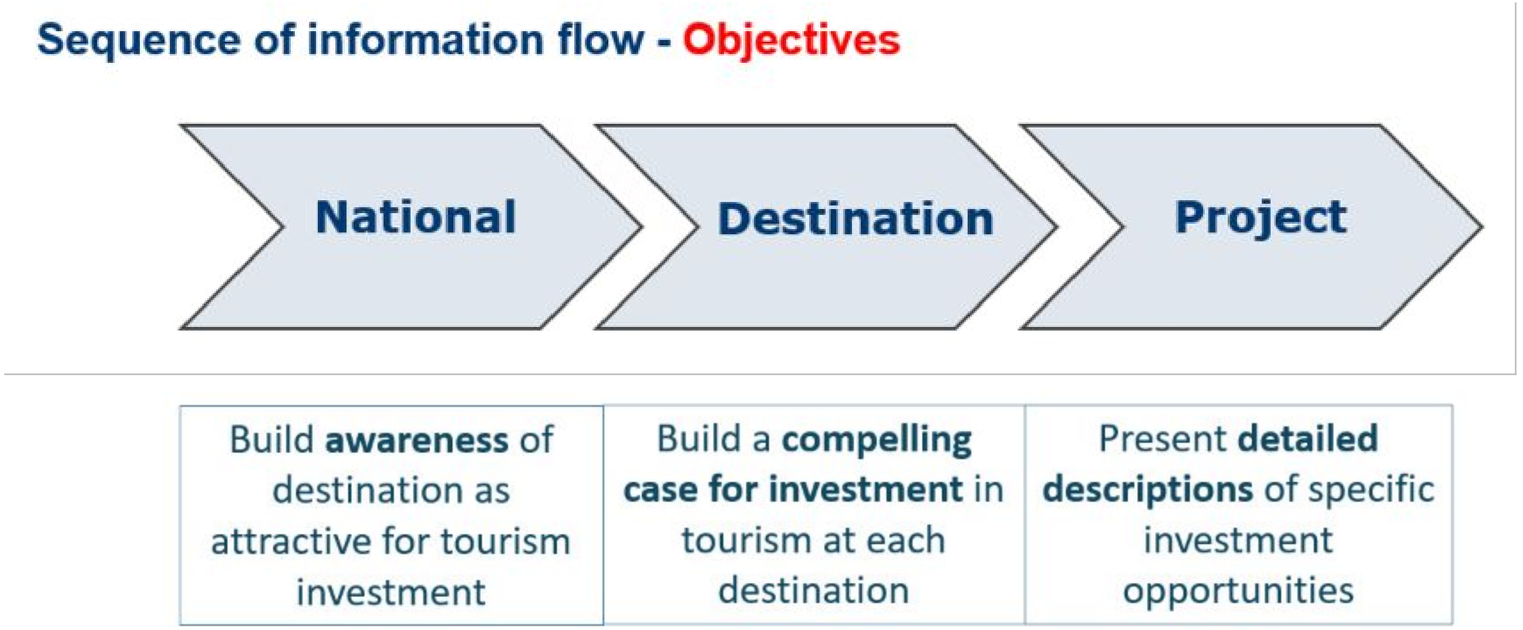
The tourism destination investment strategy – structure



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Delivering the message – the messaging roadmap



The right information at the right time

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Delivering the message – the messaging roadmap

Sequence of information flow - Content

National	Destination	Project
National level economic performance data	Destination level key drivers of demand	Description of opportunity
Country competitive position in region and globally	Destination level performance and outlook	Location, property details
Drivers of growth	Growth opportunities at destination level	Type of investment required
High level description of government support for tourism	Types of investments needed	Market position and scale
Presentation of the priority destinations	Description of GoSL support for tourism such as infrastructure, zones, training	Site access and services
Sector investment opportunities at the national level	Investment opportunities at the destination level (eco-system approach) – accomm, marinas, adventure, niches	Current status (planning processes i.e. scoping reports, EIA, zoning, lease agreements, access infrastructure, utilities provision etc.)
	Availability of sites	Pathway to invest (how to buy) Vendor details Transaction structure and partnership opportunities Approval processes (including any fast-track availability) Specific incentives available Next steps - Contact details
	Key benefits of investing in the destination such as costs, efficiency, access to key markets, presence of supporting attractions, access to key resources	

A clear value proposition at each stage

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The information and messaging roadmap – country examples

Ireland

https://www.idaireland.com/invest-in-ireland

Costa Rica

http://www.cinde.org/en

Singapore

https://www.edb.gov.sg/

Turkey

https://www.invest.gov.tr/en/sectors/pages/tourism.aspx

Cape Town

https://www.investcapetown.com/opportunities/visitor-economy/

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The information and messaging roadmap – destination examples

Ontario, Canada - a great example of destination level information with interactive maps

https://www.investinontario.com/tourism#tourism-intro

Cape Town, South Africa

https://www.investcapetown.com/why-cape-town/

New Zealand – examples of tourism sector opportunities

Investment opportunities in NZ's tourism sector | Invest New Zealand

Australia – examples of tourism sector opportunities

https://www.tourisminvestment.com.au/en

Saudi Arabia – tourism project opportunities

Home | Ministry of Tourism | KSA (mt.gov.sa)

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The information and messaging roadmap – project examples

Chile

https://investchile.gob.cl/government-announces-27-opportunities-for-investment-in-tourism-on-state-land/

Barbados

https://www.barbadostourisminvestment.com/investment-opportunities/

India

Business Opportunities : Top Business Opportunities for Investing in India | IIG (indiainvestmentgrid.gov.in)

Georgia

Hospitality & Real Estate | Invest In Georgia

Croatia

https://croatia-estate.com/investments-in-croatia/

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