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A Conversation with Oliver Wolfensberger of AUGUR Invest TOPHOTELNEWS

Oliver Wolfensberger

8-9 minutes

At the recent TOPHOTELWORLDTOUR event in Zurich, we had a chance to sit down with Oliver Wolfensberger of AUGUR Invest. Oliver is a veteran in real estate development and one of the true experts in the space, and he shared many valuable thoughts about the state of local hotels, the real estate market, and many other facets of the business.

Here are some of the highlights from our conversation:

1) What´s your role in AUGUR Invest AG and what´s the company's focus?

I am the Chairman of AUGUR Invest and founded this company recently as a special purpose vehicle to develop a luxury 5-star superior mixed-use resort in Switzerland. Here, we are in the far advanced stages of negotiation with an internally renowned high-end hotel operator, who is keen to expand its portfolio to Europe. Prior, I have developed significant high-end residential projects in Switzerland.

2) Can you give us an overview of the local hotel and its real estate market?

In general Switzerland's real estate market has increasingly become the focus of foreign investors. Switzerland's central location, its well-performing economy and stable currency further add to the long-term viability of real estate investments.

The operational complexity and the day-to-day variability in performance makes hotels a considerably different asset class than office, multifamily or other forms of real estate. Having said this, seeing the decreasing rates of return in the more traditional asset classes, hotel real estate experiences a keen interest and selective demand from investors, including institutional. As such, investors are increasingly discovering that the hotel investment market is a lucrative addition to the realm of alternative investments. We have seen, although transactional volumes are not big, that private investors are keen to acquire trophy assets to differentiate their investment portfolio knowing that their yield might not match those of other countries.

Most new hotel projects are concentrated in the main cities, where demand is concentrated in Zurich, Geneva, Lausanne and Basel, not considering the integrated mega resort projects, such as Andermatt Swiss Alps and the Buergenstock Resort. I would expect that the market will see a larger penetration of good quality hotels rather in the 3-star segment and 5-star hotels offering a luxury product at very competitive rates.

Despite a stable occupancy rate in the Swiss market as a whole, RevPAR has been decreasing. The main reason having been the unfavorable development of the exchange rate over the last few years, which has led to lower room rates for the hotels due to the high proportion of foreign demand. On the subject of leisure real estate, we have experienced unfavorable legislation over Second Homes and that banks have had a limited interest in financing resort hotels.

Now, the market shows more favorable conditions again, and with our resort project with a signature wellness concept we are appealing to a niche market of HNWI that have not been able to acquire a second home in Switzerland in the so-called Swiss Riviera and hotel guests interested in healthy aging.

3) What are the yields you are seeing and what is your outlook?

Hotels offer substantially higher returns than office buildings or retail properties, which often provide yields well below the four per cent mark. To acquire properties in prime locations, more and more investors are turning to project development, an approach that – due to its relative transparency concerning contractual partners, rental contracts, etc. reduces the investment risk. Although hotel properties are a long-established asset class, contracts can be challenging. International hotel chains – especially if they are listed on the stock exchange – are only willing to sign management agreements, moreover at non-metropolitan and (seasonal) leisure destinations, while institutional investors tend to insist on a lease. Although thorough Management Agreements have proven to generate on average higher yields than leases, a long-term business lease counts as a liability, while management agreements do not. The latter however, leaves the operating risk with the owner and funds in general are only allowed to collect rental and lease income, not operating income from the hotel. Having said this, investment funds clearly do invest in hotels through a trilateral contract model under which an operator-lessee serves as the missing link between the owner and the hotel chain. The operator or operating company signs a lease with the owner and a franchise agreement with the hotel chain. Furthermore, I would expect that management agreements will become more hybrid in leveraging on one hand the best of both worlds of the management agreement and lease, and on the other hand also the partnership of a hotel owner with an operator, who both have an invested interest to succeed and create a win-win. This will positively affect long-term results and in consequence finance ability.

4) How are new projects getting financed today?

In our reality of developing our integrated mixed-use resort here in Switzerland, we are basically considering a hotel project and a project for the branded serviced apartments.

Hotel projects have less favorable LTV’s compared to residences, based on various variables such as inherent risks, possible exit strategies and expected returns. Hence, the hesitance of debt providers to finance construction of Leisure Hotels. On the other hand, hotel projects are still eligible to cantonal subsidies with low interest rates. Seeing this, we will go the route of private equity and the possibility of private investors being able to purchase a Second Home in a highly desirable and established touristic destination will facilitate further.

5) Are there market segments which the local market is dependent upon for the growth of the industry?

As mentioned prior, I feel that certain, lower hotel categories are underrepresented. These tend to be brands of international hotel operators that will penetrate the market. On the upper end of the market we expect 2 different tendencies; low-budget 5-star hotels and 5-star superior hotels that focus more and more on wellness, beyond just having a spa or gym. HNWI spend proportionally on average more on education and health, whilst expecting a certain privacy, if not security. These characteristics we wish to implement in our “Retreat” so that guests and owners can enjoy a safehaven of rest amongst peers, but not being secluded from e.g. a vast culture and sports offering, besides breath-taking views and a pristine nature. Furthermore, strategic partnerships make large investments easier and improve saleability. Luxury retailers and hotel developers will join efforts further to differentiate their product and service offering. Here, we are all well aware of the brands such as Bulgari with Marriott, Armani with Emaar, Versace, Baccarat with Starwood, or Missoni with Rezidor or even Nobu having entered the luxury hotel market and Fendi addressing the private residence markets. Other examples are Givenchy, Dior, Guerlain, Shiseido and Clarins attaching their brand to hotel spas or even Marriott teaming up with IKEA through their Moxy Brand. These days, you can eat, sleep and breath, but foremost live your favorite brand. Here exists a younger age group that cares less about conspicuous consumption and more about an active and healthy lifestyle. To us, more and more design and lifestyle will shape the customer's choice, drive market acceptance, but especially real estate market rates, and not only of second homes or luxury private residences…

The next TOPHOTELWORLDTOUR is planned for March 8 in Berlin, the full schedule of 2018 can be found on www.thpworldtour.com