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THEORETICAL ASPECTS OF DEVELOPMENT OF INVESTMENT RELATIONS IN HOTEL BUSINESS

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Abstract

This article scientifically studies the development of hotel business finance, investment in this area, important aspects of financing, the profitability of the hotel business in the world and in our national practice, and the rate of return on investment. The financial relations in the hotel business have been thoroughly analyzed and scientific hypotheses have been formed.

Keywords: business infrastructure, global hotel investments, The return on investment (ROI), Asset diversification

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INTRODUCTION

In this article, we have argued that the principles of financial support for the hotel business are the basis for regulating the financial support of tour operators as an integral part of the financial relationship. The principles of financial support are understood as the principles that determine the internal unity of hotels and the directions of its further development. In our opinion, the expressed definition highlights the specificity of one component of the concept of financial support (or supply) principles - the direction of development of tourism entities. This specificity should reflect some of the characteristics of the entity under consideration and its financial regulation in describing the principles of financial support.

The impact of tourism and hospitality on the life of the local population can be both positive and negative. The positive aspects include the creation of jobs, an increase in income, which leads to an increase in the standard of living of the local population, an increase in the attractiveness of the region, and the revitalization of local cultural life[1]. The development of this service sector contributes to the influx of currency into the country, improvement of infrastructure, etc. The tourism and hospitality industry, represented by diverse types and organizational forms, balances and brings

[1] B. Danylyshyn, S. Bondarenko, M. Malanchuk, K. Kucherenko, V. Pylypiv, O. Usachenko. Method of Real Options in Managing Investment Projects, International Journal of Innovative Technology and Exploring Engineering, Volume-8 Issue-10, August 2019, pp. 2696-2699

together personal and public interests, it forms a healthy lifestyle, which contributes to human longevity, strengthening the institution of the family, reducing morbidity, etc. The negative aspects include polarization and commercialization of the interests of various groups of the population, which leads to complete disregard for the interests of various parties, an increase in the share of unskilled labor, loss of identity of a particular tourist destination, conflicts between the local population and tourists. The negative impact of tourism and hospitality is expressed in environmental risks and problems associated with land use and arising from poor planning, placement, design and construction of tourist facilities and enterprises. It is also possible to disturb the market balance ("import of inflation") when the arrival of a large number of tourists with high purchasing power leads to an increase in prices for goods in high demand. To obtain maximum benefits from the tourism and hospitality industry, each state develops a policy for the development of this field of activity, which is one of the inherent elements of socio-economic policy. Economic efficiency from the sphere of tourism and hospitality means receiving a gain (economic effect) from the organization of tourism and hospitality at the state level, tourist and recreational services for the population of the region, production and service activities of a tourist company.

The task of rational allocation of scarce resources is a traditional task of management practice, including for tourism and hospitality. The official problem statement is this: there is some limited resource that needs to be reasonably distributed among consumers[2]. An investment strategy is a certain system of coordinated actions of an enterprise, which determines the strategic directions of investment activity, providing it with the necessary investment resources and planning their effective use. The concept of "investment strategy" in modern economical literature is interpreted as forming a system of long-term goals of investment activity and choosing the most effective ways to achieve them. An investment strategy identifies opportunities to improve an entity's economic performance through investments; that is, it outlines the areas of investment for profit and to increase its assets. Concerning the overall economic development strategy, the investment strategy is subordinate and must agree with the goals and stages of implementation. It should be noted that the investment strategy can also be considered as a process of strategic management of investment activity. In this case, it will include: (1) tactical management of investment activities through the formation of an investment portfolio; (2) operational command of investment activities through the operational management of individual investment projects and programs.

RESEARCH METHODOLOGY

In the process of research, the methods of scientific observation, logical thinking, systematic approach, statistical and comparative analysis were used in the study of statistical data and theories on the topic.

[2] Lenko Uravic, Martina Toncetti Hrvatin, The importance of foreign investments for tourism in Istria, Economic Research, 22(1), 2009, pp. 81-97

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ANALYSIS AND RESULTS

The hospitality sector is complex with many stakeholders whose interests diverge. Multiple partners can influence the development or retrofitting of a property. For example, a property can be owned and managed by different stakeholders, each with their own mix of investors.

The following mapping (figure 1) illustrates the different stakeholders that can invest in, own and operate a hotel. Multiple combinations can apply e.g. private investor owns shares in a real estate investment trust, which owns properties run by a franchisee under a hotel brand.

When there are fewer parties in the value chain, it can be easier to incorporate sustainability into hotel design (for example, owner operators can have more control over a property than one that is owned and run by two different stakeholders). However, it can also be the case that additional stakeholders increase the demand for sustainable inclusions (for example, sustainability is an increasingly important topic for investors, which impacts the projects they are willing to invest in). Therefore collaboration across the value chain is key. This is particularly relevant with the franchised business model which has a high number of different stakeholders.

Current market analysis reveals trends emerging in these scenarios: • From 2014 to 2021, about 70 per cent of global hotel investments were made by general investors with diverse portfolios • Private equity investments and real estate investment trusts (REITs) constituted the majority of 2018 transactions, with a notable increase in portfolio acquisitions instead of single-asset purchases. • Foreign investment is strong in the hotel sector, with cross-border investment increasing 18 per cent to USD 4.5 billion from 2017 to 2018. • Among the largest hotel chains less than 10 per cent are owner-operated.

Hotel projects offer an attractive fit for green bonds, as the investment needs are typically large enough for the purposes of a bond issuance and utility savings can be cancelled into quicker repayment. Green bonds for hotels can be issued on a corporate level or part of a financial institution’s investment portfolio.

Hotels can have a significantly higher development impact when compared to other industry groups. This impact is evident in direct and indirect jobs, income generation, a variety of taxes, and public good dimensions, such as, encouraging infrastructure development, enhancing the image of a country, and contributing to environmental conservation. As well as putting money into local economies, IFC’s support for hotel investments can have a catalytic effect on boosting a country’s tourism sector and contributing to its economic diversification and sustainable growth. Some of the direct and indirect benefits from hotel investments, including some public good dimensions are evident in the chart below (Fig.1):

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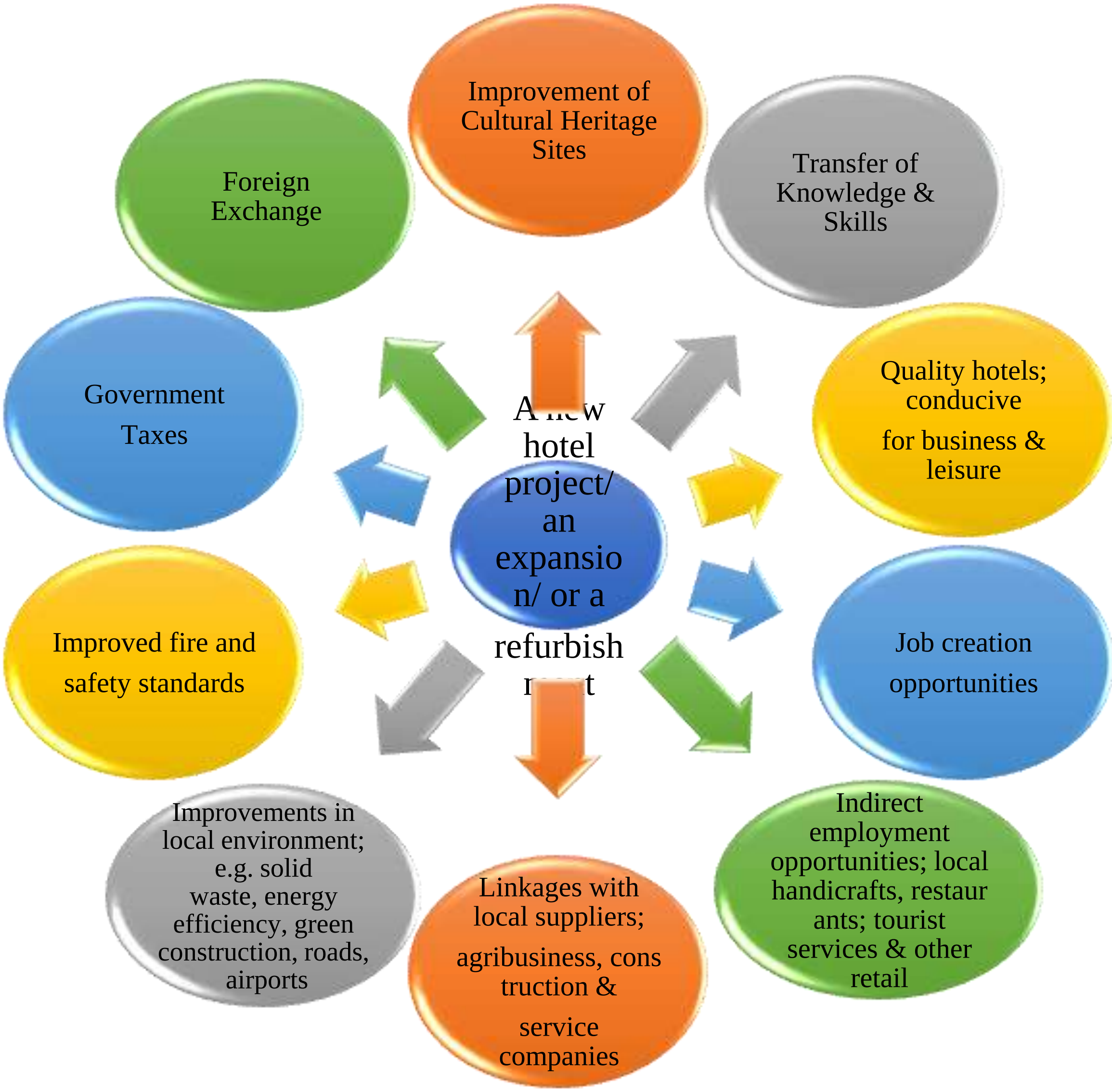

Fig.1. Development Impact from Hotel Investments[3]

IFC Hotel Projects Support Investment Climate, Grow Business Infrastructure

• Hotel investments send a positive signal to other foreign investors.

• They create quality business infrastructure and venues for international conferences.

• Integrated mixed-use hotel, commercial, and retail enhance prime business infrastructure and spur economic activity.

• Investments in hotel construction, expansion, and refurbishment support related infrastructure: roads, power, telecommunications, and airports.

• The lack of hotels and business-enabling infrastructure is constraining economic development and holding back several developing countries from becoming regional commercial

[3] Created by the author

hubs.

The high rate of return on investment in the hotel business depends on several factors, which are as follows (Figure 2):

Fig.2. Factors influencing the level of return on investment in the hotel business[4]

By minimizing installation costs, after all, less money in means less needs to come out before break-even. One way to accomplish this is by choosing a wireless system. A wireless system makes retrofitting a solution as simple as replacing a thermostat with a smarter and more capable wireless version. Upgrades of this type can easily be phased in by floor, building or campus.

In hotel business, it is important to develop a solid management strategy. In particular, make use of the data collected by the guestroom management system to develop or revise plans based on

[4]Created by the author

actual data. Track the data to track the performance of your new guestroom management system. Utilize the data to make adjustments and improvements. Turn that data into actions – and results.

Room Efficiency is one of the key factors. For instance, some rooms will be more efficient than others. Once identified, the most efficient rooms can be rented first. That simple step improves profits. But to take advantage of these differences, you have to know the efficiency of individual rooms.

Number four on the maximizing ROI parade, is property size. Bigger properties have more rooms, but one-time start-up expenses, like servers and software, tend to be somewhat fixed. Doubling the size of a hotel, in other words, doesn't mean the server has to be twice as big or the software twice as costly. While the physical location of your hotel plays a role in energy management, it's not easily controllable. By location, I mean more than just climate. Energy costs vary. In the U.S. in 2020, for instance, 18 states saw energy costs rise by double-digits while at the same the other 32 saw it drop by 10%.

Realizing that not much can be done about steps four and five, you can do something with guest demographics which brings us to step six. Typically, vacationers spend more time in their rooms during mornings and afternoons. Business travelers, on the other hand, tend to be gone during the working day and possibly much of the evening as well. Knowing what demographic categories a guest belongs to and the current demographic mix can help the guestroom management system deliver peak efficiency.

The final two steps are centered around tax incentives, which often scale with property size. So, too, do programs aimed at reducing a hotel's carbon footprint. There also can be funds in the form of rebates on a per-unit basis or preferential low-interest loans. Tapping these sources can cut investment without impacting return.

So, connect your guestroom to your building management system for a full-blown guestroom management system, and then execute on these steps. Then, sit back and watch your ROI grow. For even more help and information, here's a comprehensive white paper of how to make a guestroom management system benefit the bottom line.

Investing in Hotels: the Pros and Possible Cons

the Pros	Possible Cons
High return	***The economy and your competitors***
Tax efficiency	***Hotel management***
Asset diversification	***Demand drivers***
Value-added possibilities	***The brand***

The number one reason that most people invest in a hotel is the high yield return that's associated with this type of real estate investment. The return mostly comes from the operating cash flow. There can be drawbacks to this fact (see below). So it's important to have an experienced management team in place to help balance the risk that comes from operating in this hospitality industry.

Owning a hotel gives you the advantage of possibly reducing your tax burden. The top three reasons for this are depreciation, equity growth, and tax-deferred exchange in business real estate. Depreciation in hotels reduces taxable income. Other reasons that equity growth and tax deferred exchange are possible in hotels is because of investment recapitalization. This results from income derived from various physical properties inside the hotel.

Hotels are a great avenue for investors looking to diversify their real estate investment portfolio. As we already know, diversification of investments is important. It limits your risks. Besides, for most investors, investing in hotels is not their first thought, so there are relatively low barriers to entry. This is a positive fact to consider.

The core source of revenue from hotels is through the nightly stays and day-to-day operations. However, one benefit of owning hotels is the flexibility to offer value-adds to increase your income. For example, you might

- buy an older hotel and do renovations to improve quality,
- alter the way you operate to increase customer loyalty and their ensuing recommendations, or
- refine some of your major sales and service contracts.

The success of your hotel venture is highly dependent on the economy. Although workers might need to stop over, in general most other people need spare money to indulge in holiday travel. In addition, your competitors will also have an impact on how many guests you receive.

The existing management of the hotel is key if you have no prior experience to operating a hotel. Look for hotels with an excellent management team and low staff turnover. Poorly operated hotels mean poor cash flow and this will affect your ROI. If you prefer a more passive investment, a hotel might be a con.

Do your due diligence on what drives up demand in relation to your intended hotel location, such as proximity to key venues like hospitals, offices, etc. Lack of demand or a degenerating neighborhood will be a con.

Whether you're investing in an existing or a new hotel, consider the hotel's branding. Who are they catering for or intending to serve? And is that feasible in your view? Consider the occupancy rate in different seasons, and whether it will be a full service or limited service, etc. If you're not satisfied the brand matches your expectations, this is a definite con for you.

There's a lot more to consider and find out about investing, especially when you're just starting to consider investing in hotels. For that reason, taking the plunge can feel like a major event! But owning a hotel or having access via part ownership brings a different reward from that of investing in an office or housing complex. It's been called "experiencing it."

CONCLUSION

Some economists suggest specific criteria for evaluating the effectiveness and quality of financial support through loans to optimize and qualitatively assess their effectiveness.

We proposed to define functional and resource criteria of their efficiency through optimization and quantitative evaluation methods of hotel efficiency.

Functional criteria indicate the degree of achievement of the desired characteristics of the process of implementation of the innovative tourism product required for customers for the following purposes: time spent on the tourist product, information about facilities, customer service when moving in a certain direction, etc.; reliability and safety characteristics; achieving a real financial result, the level of employment, etc.

Resource criteria describe the quantity and quality of various resources needed to evaluate them, including: material and financial resources; costs (including energy, transportation costs, etc.); human (number of employees and their level of preparation for innovative management conditions; time costs (amount of time spent); information support of enterprises; financial services (customer service through plastic cards, money transfers; currency exchange; cash (currency) service ; insurance and payment of insurance premiums in the event of an insured event, etc.).

Thus, it is possible to list many factors that hinder the development of entrepreneurship in the hotel business today through lending or subsidies by banks. This is, first of all:

instability and unpredictability of the legislative mechanism, lack of conditions for the development of free competition;

lack of a single state structure that actually supports businesses in the hotel industry;

business in the field of entrepreneurship is not transparent, develops spontaneously, can not compete with other enterprises;

lack of financial and credit resources to promote the further development of such enterprises.

But in spite of all this, the state support of small business, especially hotel business, is extremely relevant and beneficial to the state, banks and enterprises. Today, the government of our country pays great attention to the development of tourism, including the hotel business, as tourism is one of the serious resources for socio-economic development of the country.

Therefore, if all the provisions of the hotel business support programs are implemented in the country, entrepreneurs will be able to hope for the emergence of new credit products, expansion of lending, rapid development of microfinance and, of course, easing of conditions for entrepreneurs.

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