

GRAND JUPITER

Jupiter Hotels has its eyes on many beds: it owns and manages hotels, wants to buy more and now wants to manage others' hotels. **Felicity Francis** meets the team behind this ambitious joint venture

Jupiter Hotels' strategy is bold: to not only manage its own portfolio of regional hotels under multiple brands, but now with a new management arm to offer itself as an expert manager of other people's hotels, taking in all sectors from country houses to corporate hotels and budget chains. With the UK's hotel market widely acknowledged to be picking up, the company is gearing itself to leap on opportunities in the regions.

Jupiter Hotels is a 50:50 joint venture between the Royal Bank of Scotland (RBS) and Patron Capital. The company's first move in 2011 was to spend £111m acquiring 26 out of 42 assets of Jarvis Hotels, which were immediately rebranded Mercure under a franchise agreement with Accor.

Last month, Jupiter made its next acquisition, buying five Choice Hotels in East Anglia that were facing administration. Along with this purchase, Jupiter Hotels Management was created and took control of running the additions. *Property Week* speaks to Shane Harris, chief executive of Jupiter, Stephen Green, senior partner, special situations at Patron Capital, and Joss Brushfield, global director real estate asset management at RBS.

RBS's involvement with Jupiter's hotel assets goes back further than its joint venture with Patron. When Jarvis Hotels first went into difficulty, RBS was one of the brand's lenders.

"RBS had faith in the long-term value of Jarvis Hotels' assets, so was willing to provide part of the equity, while other banks decided not to," says Brushfield. "Once we joined Patron to acquire certain assets, we started to take the group forward in a reduced form with a view to recurring value through the cycle."

Brushfield explains that the bank's involvement is "interesting" as it is both the lender and buyer. RBS has injected equity into the joint venture, and also securing the loan secured against it, though the two parts are kept at arm's length, he says.

Patron's investment in Jupiter adds to its existing hotel interests, which include Generator Hostels, Luxury Family Hotels and Staybridge Suites Liverpool. Aside from Jupiter, the investor's most recent acquisition was of the Clarion Hotel in Dublin for €33m.

Harris, meanwhile, was appointed chief executive in 2012 and is a seasoned hotel specialist, having moved from his role as head of hospitality and leisure for Moorfield Group.

JUPITER

In for the long haul

There is clearly a very active partnership between the two stakeholders and Jupiter. While Green and Brushfield create no illusions that their involvement will be long-term – to RBS and Patron, this is a four- to five-year plan to take advantage of the property cycle before selling their stakes – the executives are all intimately involved in the management of the portfolio. They are keen to emphasise the skills they bring to the Jupiter table.

Speaking for the team at Patron, Green says: “Within our team we have those who focus on industry dynamics, others on development, on planning, on operations or on the detailed numbers. I hope we are a good shareholder partner for RBS.”

Brushfield details what RBS brings to the table: “RBS has huge hotel and real estate specialism within the team, so it can bring more on the property side. Because Patron is involved in other hotels, they have more operational knowledge.”

While Harris is responsible for the day-to-day management of the company, all three men emphasise their intention to be “hands on” in growing the business and managing assets.

Brushfield describes a recent visit to a hotel in Leicester, where the three “spent a happy day releasing rooms that weren’t previously available,” rescuing them from the dusty confines of hidden servant quarters. Those rooms will create £150,000 of revenue a year, which “is a good

morning’s work”, says Brushfield, and not typically the role of a shareholder.

The main value that the joint venture partners give Jupiter is an in-depth understanding of property, such as how to release money by selling unused parts of a development as residential, or how to approach a conversion of a listed building.

Brushfield explains: “As RBS has lots of real estate operations outside of hotels, when Jupiter is looking to enhance operations, we can look at them from a real estate point of view. This illustrates the level of detail that is being given by shareholders. Hotels often focus on revenue not profit, so we bring the discipline to focus on ROI and EBITDA.”

Suits and suites

Harris explains the *raison d’être* of the operation: “We’re looking to run hotels for third parties as well as manage our own, as this leverages our platform, gives us economies of scale and increased revenue, while giving other hotel owners access to the specialist knowledge they need to grow.”

Jupiter is “agnostic when it comes to brand”, says Harris, which is evident within its owned portfolio of hotels, and as such would be open to managing any hotel, for example for investors that want the asset but have no operational knowledge.

The original idea for such an operation grew from an understanding from both shareholders that “the inherent value of hotels as real estate assets lies in operations,” says Harris – if hotels are badly managed, the real estate value will fall, other factors such as location and the market aside.

Given that Jupiter’s current portfolio spans the UK’s regions, clients for this new management business are unlikely to be competitor chains. As Harris says: “The only occasion when it could create an issue is if Jupiter focuses on its own assets rather than managing others, but there are disciplines in place to make sure that doesn’t happen.”

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Shane Harris, Jupiter

As this is a new venture, the weight of Jupiter’s focus is on establishing its own portfolio before ploughing too strongly in a drive to pick up hotels to manage. Currently the joint venture owns 21 hotels, leases five and manages a further five, and when asked which number is likely to increase first, the answer is “all of them!”

“There is a clear strategy to maximise existing revenue, so improve any underperformance first,” says Harris. “Once that is done we’ll focus on new operations. We’ve got to be opportunistic. But the infrastructure is in place to take on the management of other hotels, and we have a desire to grow the number under Jupiter’s stewardship.”

The three executives say they are looking at other opportunities, but will not give any details. They will also not divulge the details of how well Jupiter is performing, but report strong revenue growth of 3%-6% a year. Brushfield is certainly confident the returns will be worth it: “As the hotel sector has operational gearing, this can translate into massive EBITDA growth when the economy improves, if operational efficiencies are put in place or the right customer segments targeted.”

It is likely that the next hotels to fall under Jupiter’s management will be acquired by Patron under its own steam. Green says: “We’re now bidding on other hotel investments, which we will employ Jupiter to manage.”

Brushfield and Green describe their firms’ plan to sell on Jupiter’s assets and the company itself in the near future as the “natural” path of the cycle, but that Jupiter has a strong future beyond that.

“The management contract business shows that over and above hotel ownership, Jupiter has a strong growth story ahead,” says Green. “There are lots of hotels out there that would benefit from more professional management, so this was the first step to show that Jupiter can capitalise on this opportunity and its position for the future after we ultimately look to exit the business.”

Harris describes Jupiter’s main strength as an understanding of what the USP of each hotel is. He believes that there are missed opportunities that Jupiter can take advantage of, such as badly managed assets or a lack of focus on design.

He has a lot on his plate, ambitiously planning to own, run and lease multiple hotel brands across the country, but if the detailed approach to Jupiter is maintained by all stakeholders, the business model could be what investors are after. ■



No Fawltly Towers: the ballroom of the Mercure Manchester hotel (pictured left) and the Mercure Brighton Seafront hotel