

Our interview with...

## JOE SITA

**Chief Executive Officer  
Nakheel Hotels**



Joe Sita is the Chief Executive of Nakheel Hotels, a fully integrated hotel investment and development company that owns, partners and asset manages a range of hotel investments.

Within three years, Nakheel Hotels has accumulated an impressive global hotel property portfolio valued at over USD4billion which includes the W Union Square and the Mandarin Oriental hotels in New York City; W Washington in Washington DC; the Fontainebleau, Miami Beach; Corinthia Metropole, London; One & Only Resorts in Los Cabos, Cape Town and Zanzibar; and significant equity stakes in Kerzner International Holdings Limited - operator of the Atlantis and One&Only brands - and International Hotel Investments plc - owner and operator of the five-star Corinthia Hotel brand including hotels in Malta, St Petersburg, Lisbon, Tripoli, Budapest and Prague; and the franchise for easyHotels in the Middle East, Levant, North Africa.

Additional investments of Nakheel Hotels include the development of W Bangkok and W Retreat & Residences Koh Samui, Thailand; investment in a fund that will be rolling out 30 Tune Hotels in South East Asia; a 33% stake in the London Metropole Building which will be converted to a Corinthia Hotel in partnership with IGI; QE2 Enterprises including the QE2.

Joe Sita has almost 30 years experience in the hospitality industry, holding senior executive positions within a wide range of organisations including Carlson Hotels, Accor and Southern Pacific Hotel Corporation. Mr. Sita sits on the board of Kerzner International Ltd., IHI plc and a number of other companies in which Nakheel Hotels has interest.

Mr. Sita joined Nakheel Hotels in April 2006 and in his role directly oversees all company operations and developments and plays a key role in the strategic direction of the company.

## MIDDLE EASTERN FLAIR

*"Budget hotels are predominantly a yield-driven investment, whereas luxury hotels tend to be longer term, exit-driven investments".*

In this interview Meridia Capital gathers the views of Joe Sita, the man who heads up what in recent years has been one of the most active hotel investor groups not only in the Middle East but also world-wide – Nakheel Hotels.

### **Cristina Badenes**

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**Do you consider that Nakheel represents the 'standard' Middle Eastern investor? If not, what is it that makes you different? Much has been said in our industry recently about the rise of Middle Eastern investors and Sovereign Wealth Funds. This is a good chance for me to ask you first hand about how you work and how you operate, how decisions are taken within your firm, what your key advantages are.**

Nakheel Hotels, unlike many other investors from the region, is an active investor, not a source of passive capital. We are an integrated hotel developer, investor and asset manager. From originating transactions through our proprietary deal flow, developing new projects and actively asset managing our investment portfolio, we seek to provide superior risk-adjusted returns to our shareholders. We also adopt a targeted investment approach and are primarily focused on luxury hotels in gateway cities / resorts and on branded budget hotels in emerging markets.

**You own assets such as the Mandarin Oriental and the W Union Square in New York City. Regarding hotel assets, what is your investment criteria?**

When selecting hotel assets to invest in, we look for assets with high real estate value: irreplaceable locations in gateway cities - and our two New York hotels certainly fit this criteria. We also look for assets which are under-capitalised and where there is potential for us to add value through redevelopment and rebranding. Our hotel in Washington is a good example of this and will open in the summer as the first W Hotel in Washington DC.

We also believe strongly in building relationships with investment partners and operators that can add value to our portfolio.

**Which hotel brands does Nakheel feel comfortable with? And, on**

**owner / operator relationship, what formula does work best for you (owned, leased, managed or franchised)?**

About brands: the right brand very much depends on the particular hotel, its location and other attributes; however, we prefer to build long term relationships with selected operators and brands where we can then drive value across a portfolio of assets.

Our strong partnerships with Kerzner International - operator of the Atlantis and One&Only brands -, International Hotel Investments - owner and operator of the five-star Corinthia Hotel brand - and the W brand have enabled us to leverage this branding power and their relationships in the local markets to enhance the value of our investments.

On owner-operator relationship: Nakheel Hotels is not an operator; as a hotel investor and asset manager we are comfortable taking the real estate and business risk - so we generally work with the management agreement model.

**Nakheel Hotels may be Dubai-based but your scope is clearly global. Which geographic markets do you see as more attractive for hotel investment at the moment?**

There are clearly many opportunities for hotel investment at attractive valuations in today's market. We have witnessed declines in values in (even) mature markets. Considering this, probably the best opportunities are currently in those established gateway cities and resorts where there is high long-term real estate value and solid market fundamentals, but where values are under pressure due to the credit crisis.

We remain open to investing in emerging markets. However, we look for enhanced returns to compensate for the risks associated with new markets, especially during the current volatile times.

**You have strategic equity investments and major shareholdings in groups like Kerzner International or International Hotel Investments. How do you choose your partners?**

We look for long-term partners who provide long-term value to our assets with their unique expertise, brand value and distribution capabilities.

With investments in companies such as Kerzner International and International Hotel Investments we are able to have significant influence in their strategic direction, which is reinforced by our co-investment with them on specific projects such as the Corinthia Metropole development in London or the Atlantis Palm Jumeirah in Dubai. In this way we drive brand and enterprise value in our partners as well as directly participate in the real estate investments.

**Although Nakheel Hotels is involved in many luxury-end projects, your strategy also includes expanding in the emerging Middle Eastern and Asian markets through budget hotels. Which segment do you think has higher potential and why?**

Each market segment has its own target customer and has a different life cycle. At Nakheel Hotels we believe that both segments have opportunities to grow in emerging markets. In the current environment, the budget sector offers opportunities in markets which have not yet been tapped by this type of accommodation.

By investing in both ends of the spectrum we are also able to diversify our risk. Additionally, from an investment point of view, the two segments are complimentary - budget hotels being a predominantly yield-driven investment, whereas luxury hotels tend to be longer term, exit-driven investments.

**Within real estate, which asset class do you believe offers a better**

**risk/return balance? Where would you place the hotels sub-sector?**

Any real estate investor should look to develop a balanced portfolio across asset classes. Nakheel does this through its range of businesses, which include residential, retail, hotels and leisure. Hotels have an important place in such portfolio. Typically, hotels as an asset class carry a higher level of risk or volatility than, say, retail. However, such risk is compensated by higher initial yields and can be effectively managed with active asset management.

**What does Nakheel Hotels think of the current economic situation globally? By when do you foresee a recovery in the world's markets?**

Nakheel Hotels is focussed on managing its business through the current downturn, concentrating on its core business and completing its committed development projects. While we are open to new investment opportunities, it is primarily a period of consolidation for us and we believe that we will emerge as a stronger group, well positioned to take advantage of opportunities as and when the recovery emerges.

**You have several hotels under development (W in Washington DC, W in Bangkok or the Corinthia Metropole in London, for instance). Have you encountered any difficulties over the past few months as a result of the credit crunch? Many owners/developers are having serious trouble financing hotel projects. Is Nakheel finding these same problems?**

Projects are not developed in isolation and are often done in partnership with several parties; in particular the hotel owner, the operator and the development team. Therefore, challenges are an intrinsic part of any project but as an owner/investor our role is to work with all these parties to unlock issues and find solutions to keep the project on track.

**The global financial crisis has had a severe effect on highly leveraged investors (and on private equity players in particular). Some firms from the Middle East seem to be escalating positions and may soon become one of the most relevant buyer groups in the hotel sector. Do you think that Middle Eastern/Asian investors like yourselves are less dependent on third party leverage than your Western (US/European) peers? Do you tend to rely more on equity to finance acquisitions or development projects? If so, how does that affect your level of returns?**

Nakheel Hotels operates as a commercial enterprise and like any investor we are dependent on a range of capital sources, including appropriate levels of debt. The current scarcity of debt finance certainly has an impact on our ability to grow our portfolio as does the resultant economic downturn on our existing investments. A larger proportion of any deal today must be financed with equity and this, in turn, creates higher return hurdle requirements. Despite this, we believe there are still opportunities on the horizon as asset values and vendor expectations begin to adjust to the new market realities.

**Related to the question above, some would say that Middle Eastern investors have had a tendency to overpay for hotel assets. Would you disagree with that?**

It is important to take a long term view when determining appropriate values of hotel assets. Assets acquired in the last two to three years may appear expensive in today's depressed market. However, our portfolio has been acquired with a long-term view. We believe that the current situation will eventually change and that quality assets in prime locations will always increase in value over the long run.

**In your view, does the hotel industry present more or fewer acquisition**

**opportunities today than 18 months ago?**

There are certainly opportunities to acquire quality assets at favourable valuations in the current market. However, the lack of adequate levels of debt finance makes it difficult to take advantage of these opportunities. Investors now have to generally use available equity to finance existing commitments.

Those investors who are in sound financial positions are still preferring to hold on to their assets rather than accept lower valuations - as was evidenced in the steep decline seen in hotel assets transacted last year. In the US, for example, there was over USD80bn of hotel property sales in 2007 compared to less than USD20bn in 2008. \*Source: Eastdil Secured.

**Under current circumstances, have you adopted a defensive or, rather, an aggressive strategy? Has the emphasis within your division shifted from acquiring, developing and investing in hotels to intensive asset management? Are you now more focused on your existing portfolio or, instead, are you addressing all your efforts towards grabbing the opportunities that the current markets may bring?**

Although we remain open to new opportunities, at the present time we are certainly more focussed on managing our existing portfolio. We will be looking for opportunities in the future to grow our business with strategic equity partners by taking advantage of the current lower valuations of assets and leveraging our acquisition, asset management and development skills.

We are also continuing with our development projects such as easyHotels in the MENA region as well as our other luxury hotel developments in Africa and Asia.



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